SW/JR

Decision No. 78329

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of San Diego Pipeline Company and Southern Pacific Pipe Lines, Inc., for authority to increase certain of the rates applying on petroleum products as named in San Diego Pipeline Company Local and Joint Pipeline Tariff 1-B, Cal. PUC 4.

Application No. 51870

(Filed May 4, 1970)

Leland E. Butler and Frederick G. Pfrommer, for Southern Pacific Pipe Lines, Inc., and San Diego Pipeline Company, applicants.
Robert L. McCue, for Atlantic Richfield Company, interested party.
William F. Burke, for Powerine Oil Company, interested party.
Michael J. Stecher and Russell J. Leonard, for the Commission's staff.

O P I N I O N

Southern Pacific Pipe Lines, Inc., (SPPL) is the owner of a petroleum pipeline system in the States of California, Arizona, Nevada, Oregon and Texas. Within California it is engaged in the transportation of refined petroleum products as a public utility pipeline corporation. San Diego Pipeline Company (SDPC) is also engaged in the transportation of refined petroleum products within California as a public utility pipeline corporation. By this application SPPL and SDPC seek authority to effect increases in the rates which they assess for the transportation of refined petroleum products from Watson and Norwalk to San Diego.

Public hearings on the application were held before Examiner Abernathy at Los Angeles on August 10, 11 and 17, 1970. Evidence in support of the sought rate increases was presented by applicants through four witnesses: the vice-president of SDPC (also president and general manager of SPPL), the assistant to auditor of SDPC, the vice-president of SPPL (also general manager of SDPC), and the manager-accounting of SPPL. Evidence in opposition to the rate increase proposals was presented by an accountant and by an engineer of the Commission's staff. Briefs were filed on September 25, 1970, and the application was taken under submission for decision.

Description of SPPL's Facilities

The pipeline system of SPPL extends, in part, from Watson (near Long Beach and Wilmington) to Norwalk, La Habra, Colton, and points beyond.

SPPL's facilities at Watson include a pumping station, 8 storage tanks, metering equipment, filtering equipment, various buildings and miscellaneous assets.

The pipeline from Watson to Norwalk (a distance of about 12 miles) is composed of 16-inch pipe.

At Norwalk SPPL maintains a receiving and metering station consisting of a building, filtering equipment, metering equipment, instrumentation, electrical equipment, piping, fencing and other miscellaneous facilities.

From Norwalk SPPL's pipeline extends by 16-inch pipe to a booster pumping station at La Habra and thence to Colton and points beyond.

Description of SDPC's Facilities

The pipeline system of SDPC extends from the Norwalk station of SPPL to San Diego.

Terminal and pumping facilities are located in the City of Orange. These facilities consist of land and buildings, 7 storage tanks, pumping units, sump tanks, surge tanks, instrumentation, piping and related equipment. A 10-inch pipeline, about 15 miles long, links said terminal and pumping facilities to the Norwalk station of SPPL.

Southward, a 10-inch line extends about 45 miles from the terminal at Orange to a booster station in the Camp Pendleton area, and thence for an additional distance of about 53 miles to the company's Mission Valley terminal in San Diego.

About 7 miles north of the Mission Valley terminal the line from Orange connects with a pipeline of the United States Government which extends between the Miramar Air Base, about 3 miles to the east, and the Point Loma tank farm, about 12 miles to the west.

The Mission Valley terminal of SDPC is located near the intersection of Murphy Canyon Road and Friars Road in San Diego. The facilities consist of land and buildings, 2 sump tanks, metering and filtering equipment, associated piping, instrumentation and miscellaneous facilities. Also located at this terminal but not considered by SDPC as part of its pipeline operations, are about 17 storage tanks which are leased by SDPC to various oil companies and in which the petroleum products received via the pipeline are stored.

From the Mission Valley terminal SDPC's pipeline extends by 10-inch pipe about 8 miles to a manifold facility of the company in the San Diego harbor area. From said manifold facility an 8-inch pipe extends about .6 mile to tanks of Atlantic-Richfield Company. Shell Oil Company is also served by a short connection with said line.

Description of SPPL's and SDPC's Operations

The petroleum products which SPPL transports from Watson are received into the company's tankage or manifold facilities from input pipelines from the following oil companies: Standard, Mobil, Atlantic-Richfield, Union, Texaco, Shell and Phillips. Custody receipt of the products is accomplished at Watson by accurately calibrated meters. Each batch of product is isolated in one of the 8 storage tanks prior to pumping.[1/] From Watson said petroleum products are pumped to Norwalk and thence to the La Habra booster station, Colton and points beyond or to the tanks of SDPC at Orange. The Norwalk station is the custody transfer point for products originating at the Watson station and/or Norwalk for delivery to destinations on the pipeline of SDPC. The pumps at Watson provide the propulsion both for the movements from Watson to La Habra and for those from Watson to Orange.

1/ A batch is defined as 5,000 or more barrels of refined petroleum product of like specification moving continuously through the pipeline.

About 75 percent of the total volume of traffic handled by SDPC originates at Watson and the remaining 25 percent originates in the Norwalk area. About forty percent of the volume shipped from the Norwalk area originates with the Gulf and the Powerine oil companies. Military shipments constitute the remainder. At the Norwalk station there are input pipelines from the Gulf and Powerine companies which enable these companies to inject their products directly into the pipeline of SDPC. Custody receipt of the products at Norwalk is accomplished through calibrated meters. Shipper-owned pumps propel the shipments from Norwalk to the Orange terminal and pump station.

At the Orange terminal and pump station, each batch of products is isolated in one of the seven break-out tanks there prior to being repumped southward to the San Diego area.2/ Shipments of petroleum products for the Union Oil Company at Orange are also held in said tanks.

At the Mission Valley terminal each batch of product is filtered, metered and delivered into tanks designated by the shipper. Custody transfer is accomplished through calibrated meters. The following oil companies receive petroleum products at the Mission Valley terminal: Union, Douglas, Signal, Mobil, Shell, Powerine, Texaco, Gulf and Phillips. The volume for

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2/ Break-out tanks are tanks used to provide storage required in connection with changes which are made in the rate of flow of petroleum products along a pipeline. The rate of flow from Watson into SDPC's tanks at Orange is about 4,400 barrels an hour. Southward, from Orange, the rate of flow is about 2,100 barrels per hour.

Douglas and Signal is supplied by other shippers under prevailing process agreements. Neither Douglas nor Signal have refineries which are connected to SDPC.

The Shell, Standard and Atlantic-Richfield oil companies receive petroleum products via the line which extends from the Mission Valley terminal to the Harbor Manifold.

The Miramar Air Base and the Point Loma Tank Farm of the United States Navy are served via the connection of the government-owned line with SDPC's line about 7 miles north of the Mission Valley terminal. The Pendleton booster station provides the motive force for the delivery of shipments to the Mission Valley terminal, to the Harbor Manifold, and to the aforesaid military installations.

An important part of the procedures which applicants follow in the performance of the transportation involved herein is the advance scheduling of shipments. To this end applicants specify in their tariff (Local and Joint Pipeline Tariff 1-B, Cal. PUC 4) that shippers must, on or before the 15th day of the month, submit a notice of the quantity of products to be transported during the following month, and that the shippers must schedule the tender of their shipments to meet the cycle within which the products will move. Applicants require such scheduling in order to obtain efficient usage of their facilities.3/ Also, by cycling the movements of similar products, applicants avoid

3/ An illustration of the usage efficiency attained from scheduling is the use of SDPC's line to transport shipments which originate at Norwalk while the pumping facilities and line from Watson is being used otherwise for transportation to Colton.

undue contamination from excessive interproduct mixing during the movement of the various products through their pipeline systems.

Applicants' Present and Proposed Rates

Applicants' present rates for the transportation of refined petroleum products from Watson to San Diego and intermediate points (except Miramar Air Base and Point Loma Tank Farm) are as follows:[4/]

From	Via	To	Rate per Barrel
Watson	SPPL to Norwalk, thence SDPC	San Diego*	12 cents
Watson	SPPL to Norwalk, thence SDPC	Orange	4½ cents
Norwalk	SDPC	San Diego*	12 cents
Norwalk	SDPC	Orange	4½ cents

*Mission Valley; also, Harbor Manifold Facility

Applicants seek authority to increase their rates to San Diego to 14 cents per barrel. They do not propose any increases in their rates to Orange.

Applicants' Allegations and Showing of Applicants' Witnesses in Support of Sought Rate Increases

The proposed rate increases are the first which applicants have sought since the inception of their operations to San Diego in 1963. Since that time applicants have experienced

4/ Applicants' rates for the transportation of military shipments to the Miramar Air Base and the Point Loma Tank Farm are not of record in this matter. Said transportation is performed under special rate quotations to the United States Government.

material increases in their costs of operation -- particularly in their outlays for labor and related benefits, for materials and supplies, and for taxes. In addition they are being called upon more and more to relocate their pipelines because of highway and street construction along their rights of way. Under the terms of their franchises and easements they must bear the full costs of these relocations. Also, applicants are experiencing added costs as a consequence of expansions of their operations to meet increasing demands for their services. The rate increases which are sought are needed to enable applicants to continue efficient operations in the future at the lowest possible costs and to expand their operations as necessary to meet the increasing service demands.

The impact of the cost increases has fallen particularly upon SDPC. Pursuant to an agreement between SPPL and SDPC, the revenues from the transportation involved herein are divided on a basis whereby SPPL is compensated for its costs, including interest on its investment. Thus, in effect, the burden of the cost increases has been, and is being, borne by SDPC.5/

5/ Conversely, the additional revenues which would be realized from the rate increases sought herein would accrue to the benefit of SDPC.

SDPC's returns from its pipeline operations during 1969 were as follows:

Table No. 1

SDPC Financial Operating Results
Pipeline Operations, 1969

Revenues		$1,611,201
Expenses		
Operations	$321,887	
Maintenance	42,516	
General	167,958	
Depreciation*	167,497	
Taxes	182,742	
Interest	169,436	1,052,036
Net Operating Revenues		$ 559,165
Federal Income Tax		209,554
Net Income		$ 349,611
Rate Base		$5,788,261
Rate of Return		6.04%

*Based on estimated service life of 40 years for the depreciable properties. 6/

6/ SDPC also presented financial operating result figures which reflected depreciation expense computed on service lives of 22 years for the depreciable properties. It reported that it has followed the practice of so computing depreciation expense for tax purposes. Said operating result figures are not reproduced here. SDPC stated that a review of similar properties of SPPL by the Interstate Commerce Commission had developed that 40 years would be a reasonable service life of the properties for computing depreciation expense for rate purposes. SDPC also stated that the period of 40 years is consistent with the actual life expectancy of its own properties.

On the basis of expected levels of its traffic and expenses for 1970, SDPC estimates that the sought rate increases would produce additional gross revenues of $276,300 and that its rate of return for the year would be 7.06 percent. On the other hand, it estimates that its rate of return would be 4.82 percent if the sought rate increases are not authorized.[7] Details of these estimates are set forth in Table No. 2 below:

Table No. 2

SDPC Estimated Revenues, Expenses and Financial Results of Operations under Present and Proposed Rates (Based on Estimated 1970 Operating Experience)

	Under Present Rates	Under Proposed Rates
Revenues	$1,710,600	$1,986,900
Expenses		
Operations	$ 376,700	$ 376,700
Maintenance	163,600	163,600
General	141,200	141,200
Depreciation	174,700	174,700
Taxes	202,200	202,200
Interest	191,300	191,300
Total Expenses	$1,249,700	$1,249,700
Net Operating Revenues	$ 460,900	$ 737,200
Federal Income Tax	$ 159,400	$ 295,300
Net Income	$ 301,500	$ 441,900
Rate Base	$6,255,800	$6,255,800
Rate of Return	4.82%	7.06%

7/ In basing its estimates on its levels of traffic and expenses for 1970, applicant assumes, in effect, that the increased rates which are sought would have been collected throughout the year. Inasmuch as this matter was not taken under submission until September 25, 1970, it is obvious that any rate increases which are authorized as a result of this proceeding will apply mainly to traffic in 1971, and that the level of expenses will be mainly that for 1971. On the basis of indicated expenses for 1971, it appears that applicants' earnings under present rates and under the proposed rates may be somewhat less than those shown.

Allegations and Evidence of Commission Staff Witnesses in Opposition to the Sought Increases

The staff contends that the presentation of SDPC does not fairly portray the financial results of the company's pipeline operations. SDPC improperly excluded revenues from its terminaling (storage) services at San Diego and Orange. It improperly excluded revenues from the transportation of petroleum products to the military installations at Miramar and Point Loma. The terminaling services and the transportation of military shipments are integral parts of the pipeline operations, and the revenues therefrom should be taken into consideration in the development of the revenue needs of the pipeline operations.

In the division of expenses between the military transportation and the terminaling services, on the one hand, and the company's pipeline operations otherwise, the divisions were made arbitrarily. Expenses applicable to relocation of segments of SDPC's pipeline are overstated. Operating expenses for 1969 are overstated by inclusion of the full amount of an extraordinary charge for flood loss. Interest expenses is improperly included as an operating expense. The company's investment in public utility properties is overstated.

Earnings from the company's total operations indicate a rate of return of 11.43 percent for 1969 and a rate of return of 11.3 percent for 1970. In terms of earnings on equity said returns correspond to yields of 15.33 percent and of 14.97 percent for 1969 and 1970, respectively. Under present rates SDPC's earnings are adequate. For these reasons the staff urges that the application be denied.[8/]

Discussion

This proceeding comes before the Commission pursuant to the provisions of Section 454(a) of the Public Utilities Code:

> "No public utility shall raise any rate or so alter any classification, contract, practice, or rule as to result in any increase in any rate except upon a showing before the commission and a finding by the commission that such increase is justified." [9/]

Primarily, the questions to be decided are whether SDPC's revenues from its pipeline services under present rates are unreasonably low, and whether the increased rates which are sought are necessary to the company's realizing reasonable compensation from said services. In view, however, of the differences between SDPC and the Commission's staff representatives concerning the company's terminaling operations and the transportation of military shipments, it is evident that an evaluation of the revenue needs of the pipeline services also involves a determination of the extent, if any, that the terminaling operations and the military shipments should be taken into account in connection with said evaluation.

8/ Data which were presented by the engineer of the Commission's Transportation Division indicate even more favorable earnings than those shown above. According to the engineer's calculations the company's depreciation expense for the future is less than that calculated by SDPC or the Commission accountant.

9/ Article XII, Section 20, of the State Constitution similarly states that:

> "No railroad or other transportation company shall raise any rate of charge for the transportation of freight or passengers or any charge connected therewith or incidental thereto, under any circumstances whatsoever, except upon a showing before the railroad commission provided for in this Constitution, that such increase is justified ..."

The position of the Commission's staff that the revenues from the terminaling services should be considered in determining applicant's need for rate increases stems from Section 227 of the Public Utilities Code which defines "pipe line" as follows:

> "'Pipe line' includes all real estate, fixtures, and personal property, owned, controlled, operated, or managed in connection with or to facilitate the transmission, storage, distribution, or delivery of crude oil or other fluid substances except water through pipe lines."

The staff's argument is that SDPC's tanks at Mission Valley, San Diego, and at Orange are used to facilitate the delivery of the petroleum products which are transported through the company's pipeline; that the revenues from the terminaling are generated by using the same public utility properties and operating personnel used in the transportation operations, and that the terminaling is an integral part of the transportation process, and should be accounted for and treated as such.

SDPC's position, on the other hand, is that its terminaling operations are beyond the scope of those which it performs as a pipeline corporation; that the properties which are employed in the terminaling operations have never been dedicated to public use, and that said operations and the financial results thereof should have no bearing on the pipeline services. SDPC further asserts that the terminaling operations are outside of the Commission's jurisdiction by reason of an exception contained in the definition of (public utility) warehouseman in Section 239(a) of the Public Utilities Code, and may not, therefore, be considered by the Commission. Said section defines "warehouseman" as including:

> "Every corporation or person owning, controlling, operating or managing any building or structure in which property, other than liquid petroleum commodities in bulk, and other than baled cotton, is regularly stored for compensation within this state, in connection with or to facilitate the transportation of property by a common carrier or vessel, or the loading or unloading of property, other than liquid petroleum commodities in bulk, and other than a dock, wharf, or structure, owned, operated, controlled, or managed by a wharfinger."
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> (emphasis added to indicate the cited exception)

SDPC's terminaling services unquestionably facilitate the transmission of petroleum products through the company's pipelines. By providing a depository for the discharge of petroleum shipments from the pipelines, they permit the clearing of the lines for further shipments. However, the record is relatively meager concerning other aspects of SDPC's terminaling services, particularly those at Mission Valley.

It appears that at Mission Valley SDPC's terminaling services may consist in part of storage services which the company itself is providing. It also appears that the term "terminaling" covers purported leasing of certain of the company's storage tanks to individual oil companies. The record is so lacking in detail which would disclose the essential character of the terminaling services at Mission Valley that a specific conclusion as to whether the earnings from said services should be considered in conjunction with SDPC's pipeline operations per se is not warranted. However, for reasons which subsequently will become clear, we do not deem such a determination as essential to the disposition of this application.

The record with respect to SDPC's terminaling services at Orange is more illuminating. Said services consist of the storage of petroleum products for Union Oil Company. About 40 percent of the capacity of three of SDPC's seven tanks at Orange is so used. The utilization of the tanks for such storage purposes is incidental to the principal purposes of the tanks, namely, to provide storage to accommodate the difference between the rates of inflow and outflow at Orange in the transmission of petroleum products to the San Diego area. The record shows that all of the seven storage tanks are thus essential to the public utility pipeline operations. Clearly, the tanks carry the imprint of public dedication in connection with said operations.[10/]

It appears that in the storage of products for Union Oil Company at Orange the products are commingled at times with shipments destined to San Diego. It also appears that the oil company's storage requirements are variable or intermittent. In other respects the record does not show the arrangements under which the storage for Union Oil Company is performed or the circumstances in which custody of the shipments is transferred from SDPC to the oil company.

The shipments for Union Oil Company at Orange come under SDPC's custody as a carrier. With respect to SDPC's allegations that any storage services which it performs are those within the exceptions of Section 239(a) of the Public Utilities Code, we must regard such allegations as unproved in the absence of evidence disclosing how SDPC's responsibilities for the shipments as a carrier terminate and those as a warehouseman are

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10/ As properties essential to the performance of SDPC's public utility pipeline duties to the public the tanks may not be sold, leased, assigned, mortgaged or otherwise disposed of without authorization from the Commission.
(Section 851, Public Utilities Code.)

assumed. As a consequence we conclude that SDPC's "terminaling" operations at Orange are, in fact, part of its pipeline operations, and that the financial results of said "terminaling" should be considered in connection with any needs of SDPC for increases in its rates for its pipeline services.[11/]

We turn now to the question of whether any consideration should be given to the military shipments in evaluating applicants' alleged needs for the sought rate increases. The issues in this respect are whether and to what extent the alleged needs for increased rates are prompted by the transportation of the military shipments for rates that are lower than those which otherwise apply pursuant to applicants' tariff, and whether the revenues and expenses applicable to the military transportation should be considered as part of SDPC's other pipeline revenues and expenses.

SDPC asserts that the military shipments should have no bearing upon the requested rate increases because the Commission has no jurisdiction over the rates which applicants charge for the transportation of said shipments (Public Utilities Commission of the State of California v. United States, 355 U.S. 534, 78 Sup. Ct. 446, 2 Law Ed. 2d 270). The company cites River Lines, Inc. v. Southern Pacific Pipe Lines, Inc. 62 Cal. P.U.C. 238, as a holding by the Commission that it would not compare transportation for the military with that for commercial shippers. SDPC also states that the military transportation is subject to diversion to tanker service at any time; moreover it is subject to termination because of closure of the military bases

11/ A corollary conclusion is that since it appears that the terminaling operations at Orange are a part of the pipeline operations, SDPC's rates and regulations applicable to the Orange terminaling operations should be included in the company's pipeline tariff.

involved. Regarding the question whether any need for the sought increases may be attributed to the military transportation, SDPC declares that said transportation is being performed at a profit and hence is not a burden upon the other operations.

The position of the Commission's staff representatives concerning the military shipments is simply that any revenues which are derived from the use of public utility facilities and which benefit the company as a whole must be considered as a part of operating revenues for rate making purposes. In support of this position the staff representatives cite the Commission's Decision No. 50258, In Re Pacific Telephone Company, 53 Cal. P.U.C. 275, 320, wherein the Commission stated as follows regarding certain special contract services:

> "It is applicant's position that these services, facilities and equipment are of a nonutility character and that the material in the record concerning these contracts is neither necessary nor relevant to a decision in this proceeding. We do not subscribe to this view. These services furnished pursuant to these contracts are performed by the use of the operative property and operative personnel of the applicant and necessarily and lawfully constitute public utility service." 12/

The jurisdictional issue which SDPC raises concerning the military transportation may be disposed of summarily. Such

12/ Another Commission decision cited by the staff representatives as being to similar effect is that In Re Application of Pacific Greyhound Lines, et al, 50 Cal. P.U.C. 650.

issue is not involved in this matter. That the Commission does not have jurisdiction over the rates which SDPC assesses for its services for the United States Government is not questioned. However, what SDPC does with respect to its rates for its other pipeline services is of moment to the Commission, and is well within the Commission's jurisdiction.

In performing transportation for the United States Government at reduced rates, SDPC should not expect to recover any revenue or earnings deficiencies resulting from said reduced rates from its commercial patrons. Such a recovery, if permitted, would constitute a shift of a portion of the burden of maintaining the federal government from taxpayers in general to the company's commercial patrons. The commercial patrons would, in effect, be taxed to meet costs or to offset revenue deficiencies stemming from the military transportation. SDPC is not endowed with power in this respect to determine the incidence of taxes to support the federal government and to assess charges accordingly. Conversely, as taxpayers in general, SDPC's commercial patrons should not be subjected to special levies in order to subsidize or partly subsidize the military transportation.13/

13/ Compare Application of Western States Gas and Electric Company, 16 C.R.C. 562, 569, (1919) wherein it was stated with respect to an increase of 10 percent in rates which the electric company was being authorized to assess,

> "... applicant may grant free or reduced rates to municipalities and other governmental bodies, and if applicant so desires it is free to thus reduce its rates for street lighting so that the additional 10 percent herein authorized will not increase its charges for municipal street lighting service. If applicant elects not to charge this additional 10 percent for municipal street lighting service, it must do so at its own loss... . In other words, if applicant elects to carry the burden instead of placing it upon its muncipal street lighting customers where it belongs, it will do so at its own loss and will not be entitled before this commission to claim an insufficiency in revenue by so doing."

SDPC's claim that its transportation of the military shipments is profitable and thereby is not a burden on its other operations is made mainly on the basis that the only costs which are applicable to the military transportation are incremental costs -- those costs which are incurred as a direct result of said transportation and which would not be incurred if the transportation were not performed. By way of justification for this claim, SDPC asserts that its services for the military are incidental to the main purposes of its services in general, viz., the transportation of petroleum products for commercial shippers; that the military transportation does not require any investment in plant facilities above that needed to meet the needs of the commercial shippers, and that the military transportation is performed during periods when use of the company's pipeline is not required for the transportation of commercial shipments.

In proper cases whether a particular transportation service is profitable may be measured by whether it returns something more than the incremental costs involved. Main considerations are whether the traffic would move under rates which would return full costs, and whether, as an alternative to foregoing the traffic because of an inability of the traffic to move at rates which include full costs, the carrier would be better off by assessing lesser rates and thereby enjoying some revenues which could be applied toward offsetting the carrier's overhead costs in general.

We are of the opinion that SDPC has not established that this is a matter in which the profitableness of the military transportation should be measured in terms of return over incremental costs. Although reference was made by the company to a potential diversion of the traffic to tanker service, the extent of this potential was not developed.[14/] The record does not otherwise indicate that there is circumstance that would seriously inhibit the movement of the military traffic under rates that reflect the full costs of the services performed.

In general, it appears that the military shipments move from Norwalk to the San Diego area under substantially the same cost conditions as those which apply to the commercial shipments which move from Norwalk to the San Diego area. One difference which might be noted between the circumstances in which the two types of shipments are transmitted is that the commercial shipments move by SDPC's facilities all the way to Mission Valley whereas the military shipments are transferred to military pipelines at a point about six miles north of Mission Valley. However, SDPC apparently provides a substantial portion of the propulsion for such shipments from its line to the Miramar Air Base (3 miles) and to the Point Loma tank farm (12 miles). Hence, it may be reasoned that the pumping costs to Mission Valley and to the military destinations are much the same. If, as SDPC alleges, rate increases are necessary to provide reasonable compensation for the transportation of the commercial shipments from Norwalk, it inescapably seems to follow that the rates for the military transportation from Norwalk, which are less

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14/ The only information which SDPC presented from which the force of the competition from vessel operations might be inferred is that the present rate for the transportation of oil from Los Angeles to San Diego by barge is about 25 cents a barrel, an amount which is more than twice the company's present rate by pipeline; also, that Standard Oil Company had decided to discontinue the use of tanker service to San Diego and to use applicants' pipeline service instead.

than those for the commercial shipments, are below a reasonably compensatory level.

In view of the emphasis which SDPC placed upon the so-called profitableness of the military transportation, we have considered the "profitableness" at length. Our conclusions above concerning the relative costs of the military and of the commercial transportation have been limited to general terms, inasmuch as the company did not submit sufficiently detailed data to permit a separation of the full costs of the military and commercial transportation, respectively.

More specific conclusions, however, can be drawn about revenues. In this regard it may be calculated that had SDPC collected its full tariff rates for the military shipments which it transported during 1969, it would have received about $39,000 -- about 15 percent -- more than it received under the rates actually assessed.[15/] Thus, aside from any losses on a full cost basis that may have resulted from the military transportation during 1969, the amount of $39,000 which SDPC has foregone in transporting the military shipments for reduced rates should be taken into account in evaluating applicants' needs for increased rates for the commercial shipments.

15/ During 1969 SDPC transported 4,448,836 barrels of petroleum products from Norwalk origins to the San Diego area. Of this quantity 1,994,253 barrels were delivered to commercial accounts, leaving a difference of 2,454,583 barrels as being the quantity delivered to military destinations. Revenues from the military transportation during 1969 were reported as $255,122, the equivalent of 10.39 cents per barrel -- 1.61 cents per barrel less than the rate of 12 cents per barrel which applies from Norwalk to San Diego pursuant to applicants' tariff.

It is hardly necessary to do more than touch upon SDPC's other arguments that the revenues and expenses of the military transportation should not be considered because the Commission so held in River Lines, Inc., v. Southern Pacific Pipe Lines, supra, and because the military transportation is subject to termination as result of closure of the military bases involved. SDPC has misconstrued the holdings in the River Lines matter. The decision thereon states that "the services performed by Pipe Lines in connection with its military contracts are not comparable to the services furnished under Pipe Lines' commercial rates, and ... comparisons between the two rates are not instructive." Obviously the matter under review was the relationships between the military and commercial rates, and not whether the revenues from, and the expenses of, the military transportation should be considered in connection with the other services involved.

With reference to the asserted transient nature of the military transportation, the record is lacking in any evidence which would indicate that closure of the military bases in question is so imminent that the continuance of the military transportation should be largely discounted. In the absence of such evidence SDPC's services should be considered in the circumstances in which they are now being provided. If and when material changes are made in said circumstances, a further review of SDPC's services can then be made.

Throughout this consideration of the military shipments, and in dealing with other aspects of applicants' (particularly SDPC's) operations also, it must be kept in mind that the fundamental issue is whether increases which are being sought in rates for the use of public utility properties are justified. In disposing of this issue we must necessarily give attention to all aspects of the uses to which the properties are being put.

There is no dispute that, with certain exceptions which are not material, the properties of SDPC which are used in the military transportation are public utility properties. This fact is conceded by SDPC. Clearly, the military transportation is a part of SDPC's public utility operations. Our holdings in Re Pacific Telephone Company, supra, which were cited by the Commission's staff representatives, are likewise applicable in this matter. Subject to the qualifications hereinabove or hereinafter expressed, the revenues from, and the costs of, the military transportation should be considered as part of the revenues and costs of SDPC's total public utility operations in arriving at the company's needs for the rate increases which it seeks.

The services which applicants provide in transporting petroleum products from Watson to Orange also give rise to the question whether the rate increases which applicants seek are prompted in part by said transportation services. It appears that various of the increases in operating costs which applicants assertedly have experienced over the past several years have applied, and are continuing to apply, to the transportation from Watson to Orange as well as to other of applicants' transportation services. SPPL's estimates for 1970 indicate that operating expenses for the Watson/Norwalk segment of the transportation to Orange will be about 6 percent higher than the corresponding expenses for 1969. Notwithstanding the increases in operating costs, applicants are not proposing any offsetting adjustments in their rate of 4-1/2 cents a barrel from Watson to Orange. In the circumstances it will not be assumed that the 4-1/2-cent rate is reasonably compensatory, and that the transportation from Watson to Orange is not burdening the other of applicants' transportation services which are the subject of this application. The rate increase proposals will be evaluated accordingly.

Other matters which have a bearing on whether the rate increases which applicants seek are justified are SDPC's charges for depreciation expense, relocation expense, casualties and other losses, and interest expense. Also to be considered are: whether certain land which is held for future use should be included in SDPC's rate base; Camp Pendleton booster pump expense; legal restrictions which may limit the increases that may be authorized in the rates which apply for the transportation of petroleum products from Norwalk to the San Diego area; and applicable charges for income taxes.

Depreciation Expense

As previously stated in connection with Table No. 1, above, SDPC has followed the practice of computing depreciation expense for the bulk of its properties on a service life basis of 22 years. However, for the purposes of this proceeding it recalculated its depreciation expense and depreciation reserves to a service life basis of 40 years.

In its adjustments of depreciation expense and of its depreciation reserves to this longer period, SDPC computed the applicable charges and the reserves as though said charges and reserves had been developed on the 40-year basis from the inception of use of the properties involved. In result the company did not take into account the charges to depreciation expense which it has hitherto made on a service life basis of 22 years.[16/]

A different method was followed by the Commission engineer in his calculations of depreciation expense on the 40-year basis. The engineer adopted SDPC's property valuations which had been developed through 1969 on estimated service lives of 22 years and computed depreciation expense for the future on the basis of the remaining service lives of the properties to 40 years. Both the depreciation charges and the corresponding rate base figures which result under the engineer's method of calculations are lower than those which result under SDPC's calculations.

16/ The depreciation expense applicable to SDPC's operations was similarly calculated by the Commission accountant.

SDPC vigorously assailed as improper the method which the engineer used. It asserts that since this matter is the initial rate application of SDPC, the 22-year service life period has never been used as a basis of rates of the company. It further asserts that the engineer's use of rate base data which reflect 22-year service lives, on the one hand, and income data which reflect 40-year service lives, on the other hand, is wrong and grossly unfair.

The method of computing depreciation expense which is advocated by SDPC will result in higher charges to depreciation, over the service lives of the properties involved, than those which would result under the method of the engineer. Taking into account the rates of depreciation which the company has applied through 1969, the company will have collected over the 40-year period about 14 percent more than the cost of the properties by computing depreciation charges under its method. Under the engineer's method the total charges to depreciation would equal the costs of the properties.

A public utility is entitled to recover the full costs (less any salvage) of its operating properties through its charges to depreciation, and no more.[17/] It is not of consequence that the rates of the utility and the related questions of depreciation are first brought before the Commission after the utility has been in operation for several years. We do not see any valid reason for restructuring the company's records and asset valuations because

17/ Compare Star & Crescent Ferry Company, 54 Cal. P.U.C. 381; A & B Garment Delivery, 56 Cal. P.U.C. 333, and cases cited therein; Application of Pacific Telephone and Telegraph Co., 53 Cal. P.U.C. 275, 293; Pacific Telephone and Telegraph Co., vs. Public Utilities Commission, 62 Cal. 2d. 634, 665, 666.

the company has elected to apply abnormal rates of depreciation during the years prior to the time that said depreciation rates are brought into issue as result of a rate increase application. The method which was followed by the engineer is correct. The charges to depreciation expense in accordance with this method, and rate base data reflecting said method, should be adopted as bases for any increases in applicants' rates.[18/]

Relocation Expense

The relocation expense which is involved herein arises out of demands upon SDPC to make location changes of its pipeline to accommodate or to conform to changes along its route such as raising or lowering of highways, alterations of bridge crossings, sewage and water pipeline installations, and modifications occasioned by urban developments. SDPC's relocation expense for the years 1965 through 1969 was approximately $60,000. SDPC estimated that this amount would be increased to about $155,000 for the year 1970 and would continue at that level thereafter.

The Commission accountant disagreed with SDPC's estimate that the company's relocation expense for 1970 would be as much as $155,000. He said, in effect, that the company follows the practice of charging all relocation costs to expense in the year in which they were incurred, whereas analysis of the work

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18/ It appears that the depreciation charges of SPPL should also be modified. SPPL adjusted its depreciation rates in 1967 to the basis of 40-year service lives. Prior to 1967 SPPL had computed depreciation on the basis of shorter service lives. In changing to depreciation rates based on the 40-year period, SPPL apparently did not make adjustments to compensate for the higher depreciation rates which were applied prior to 1967.

performed might develop that some of the costs should be capitalized and charged through depreciation to subsequent years. On the basis of the company's previous experience, the accountant estimated that the level of relocation expense, including that for 1970, would continue at a rate of about $60,000 annually.

Despite the difference between the respective estimates of SDPC and of the Commission accountant, there appears to be no question that the company's relocation activities during 1970 will involve monetary outlays of about $155,000. Irrespective of whether some of this amount should be capitalized, the volume of the amount as compared to the outlay of about $60,000 for relocations during 1969, when considered in connection with SDPC's appraisal of future relocation expense, supports a conclusion that for 1970 and some years thereafter the company relocation expense will be significantly greater than it was in 1969. However, in the absence of specific evidence concerning probable relocation work beyond 1970, and in the absence, also, of evidence concerning the character of the work involved, we do not accept SDPC's estimate that the normal outlays for relocation expense for 1970 and thereafter will be at a rate which is more than two and one-half times that of prior years. Upon full consideration of the showings of SDPC and of the Commission's staff representatives, we will adopt, for the purposes of this proceeding, an amount of $120,000 as being the normalized amount reasonably chargeable to relocation expense for 1970 and immediately thereafter.

Casualties and Other Losses

In late 1968 and early 1969 SDPC suffered a flood loss of about $115,000, $50,000 of which, as an insurance deductible, was not covered by insurance. The amount of $50,000 was charged against the company's expenses for 1969. However, as a result of this experience SDPC is undertaking, over the ensuing five years, to establish a reserve of $50,000 against further flood losses. Toward this end it included an amount of $10,000 in its expense estimates for 1970.

The Commission accountant, on the other hand, recommended that the flood loss be amortized as an extraordinary expense over a period of ten years at the rate of $5,000 per year.

For rate purposes, the flood loss should be dealt with as an extraordinary expense and amortized over a reasonable period in the future. We are of the opinion that a reasonable period is five years. Provision of $10,000 should be included in SDPC's expenses for 1970 towards amortizing this extraordinary expense. Like amounts should be included in future annual expense allowances until this expense has been fully amortized.

Interest Expense

SDPC's showing of operating expenses for 1969 lists an amount of $169,437 for interest expense. The company's operating expense estimates for 1970 show an amount of $191,300 for interest expense.

The Commission accountant, in his development of the company's expenses, excluded interest expense from the operating expense classification, and listed interest expense as an "other" expense, to be taken into account in the computation of income taxes.

SDPC registered strong objection to the accountant's method of treating interest expense. It asserts that the results of said method are grossly misleading in that the effect of the interest expense is not shown. SDPC further asserts that to produce equitable results, income taxes should be computed as though no interest payments were made -- that by this method debt-encumbered and unencumbered public utilities would be placed in the same comparative position for rate purposes.

The difference between SDPC and the accountant is primarily one of mechanics -- which yardstick is to be used in determining the adequacy or inadequacy of the company's earnings. The heart of the problem is what level of earnings is necessary to sustain the operations and reasonably compensate the company for its services.

The accountant undertook to meet this problem by his showing that on the basis of total operations at present rates the company realized a return of 15.53 percent on equity for 1969 and would realize a return of 14.97 percent on equity in 1970. Although the company argued that its earnings needs should not be considered in terms of total operations -- that the terminaling services and military operations should be excluded -- it did not present data to show either its return on equity from its commercial operations or what should be considered as a reasonable return on such equity. The company's return on equity will be further considered below.

Land Held for Future Use

SDPC's properties at Mission Valley include a parcel of land which is held for the company's future use. Said parcel is carried in the company's records at a value of $175,834, and is classified as part of the company's pipeline operating properties upon which the company seeks a return through its transportation rates.

The Commission's staff representatives contend that said parcel of land should not be considered as part of the company's pipeline operating properties because the company has no definite plans for the use of the land in connection with the pipeline operations within a reasonably imminent period. The principle to be applied, the staff representatives say, is that only property to be used for public utility purposes within three years should be included in the rate base (Application of Pacific Telephone and Telegraph Co., 53 Cal. P.U.C. 275, 297; Application of Pacific Telephone and Telegraph Co., 56 Cal. P.U.C. 277, 281).

The record in general supports the staff's position. The evidence shows that the company has tentative plans for the installation of a booster pump and associated piping on part of the property within the next two and one-half to four and one-half years. It also appears that the land may be used to expand the company's "terminaling" operations by being used as a site for additional tanks. Until the company more definitely commits the land to public utility use within a reasonably imminent period as indicated, the cost of the land should not be included in the company's public utility rate base.

Camp Pendleton Booster Pump Expense

In April 1970 SDPC installed a booster pump in its pipeline system in the Camp Pendleton area. This installation resulted in an increase of about $6,000 a month in the company's electric power costs. The company's expense estimates include provision for the additional expense in April and since. It appears that for the purposes of gauging the company's revenue needs to meet its annual costs of operation, the additional costs that would have applied had the pump been in operation during the first three months of 1970 may also be properly considered. To this end an allowance of $18,000 should be included in the company's expense estimates for 1970.

Legal Restrictions Limiting Rate Increases from Norwalk to the San Diego Area

Applicants' present rate from Norwalk to the San Diego area is 12 cents a barrel. In addition to paying this rate, commercial shippers at Norwalk are required by SDPC to provide the pumping of their shipments from Norwalk to SDPC's tanks at Orange. Thus, SDPC's total charges for the transmission of commercial shipments from Norwalk to San Diego are, in effect, 12 cents a barrel plus the pumping costs from Norwalk to Orange.[19]

19/ The record does not show whether the United States government provides the pumping from Norwalk to Orange in connection with the movement of military shipments from Norwalk to the San Diego area.

Applicants' rate from Watson to the San Diego area is also 12 cents a barrel. However, the services which applicants provide for this rate include all of the pumping.

The record is clear that the costs of pumping from Norwalk to Orange are not an insignificant item of expense. Consequently, it appears that SDPC, in requiring its Norwalk shippers to bear these costs in addition to paying its tariff rate of 12 cents a barrel from Norwalk to San Diego, is exacting greater compensation for transporting shipments from Norwalk to San Diego than it concurrently is charging or receiving in conjunction with SPPL for transportation from Watson to San Diego over the same route.

There is no indication in applicants' proposals that if the rates from Watson and Norwalk to San Diego are increased to 14 cents per barrel as sought there would be any assumption by SDPC of the pumping costs from Norwalk to Orange of shipments which originate at Norwalk. Hence, it appears that SDPC would continue to charge more for its transportation from Norwalk to San Diego than from Watson to San Diego.

Article XII, Section 21, of the State Constitution states (in part) that:

> "No discrimination in charges or facilities for transportation shall be made by any railroad or other transportation company between places or persons, or in the facilities for the transportation of the same classes of freight or passengers within this state. It shall be unlawful for any railroad or other transportation company to charge or receive any greater compensation in the aggregate for the transportation of passengers or of like kind of property for a shorter than for a longer distance over the same line or route in the same direction, the shorter being included within the longer distance, or to charge any greater compensation as a through rate than the aggregate of the intermediate rates."

As may be noted, the foregoing provisions apply to railroads and transportation companies. Applicants have here presented themselves as public utilities as defined in Section 216(a) of the Public Utilities Code. Said section reads as follows:

> "216. (a) "Public utility" includes every common carrier, toll bridge corporation, pipeline corporation, gas corporation, electrical corporation, telephone corporation, telegraph corporation, water corporation, wharfinger, warehouseman, and heat corporation, where the service is performed for or the commodity delivered to the public or any portion thereof."

If, in addition to being public utilities, applicants are also transportation companies within the meaning of the Constitution, they likewise are subject to the constitutional provisions applicable to transportation companies.

The term "transportation company" as used in the Constitution should be construed to include all persons engaged in the business of transportation, whether as corporations, joint stock companies, partnerships or individuals. Moran v. Ross, (1889) 79 Cal. 159, 163. "Transportation" is the taking up of persons or property at some point and putting them down at another. Gloucester Ferry Co. v. Pennsylvania, (1885) 114 U.S. 196, 203; Golden Gate Scenic S.S. Lines v. P.U.C., (1962) 57 Cal. 2d 373, 380. A transportation company includes entities carrying freight and passengers from one portion of the state to another, or from another state into this state. It includes companies transporting freight or passengers as common carriers for hire on the public highways by means of motor trucks or automobile stages, along routes not exclusively within the limits of a municipality. Western Assn. etc. v. Railroad Com., (1916) 173 Cal. 802. It is not limited to ground transportation and includes airline transportation companies. People v. Western Air Lines, Inc., (1954) 42 Cal. 2d 621, 623, 625, 641.

It is clear from the foregoing definitions that a corporation which is engaged in the transportation of property as a common carrier between points outside of the confines of a single municipality is a transportation company.

Applicants admittedly are corporations engaged in the transportation of petroleum products by pipeline between points beyond the confines of a single municipality. They admittedly are engaged in said operations as public utilities as defined in Section 216(a) of the Public Utilities Code. As public utilities a distinguishing feature of their services is that the public has a legal right to use said services. Allen v. Railroad Com., (1918) 179 Cal. 68, 88. In transporting petroleum products as a public utility, applicants have assumed the obligations of a common carrier. A common carrier is one who offers to carry goods for any person between certain termini, and who is bound to carry for all who tender their goods and the price of carriage. Associated Pipe Line Company v. Railroad Commission, (1917) 176 Cal. 518, 523. Everyone who offers to the public to carry persons, property or messages, excepting only telegraph messages, is a common carrier. CC 2168. Forsyth v. San Joaquin Light and Power Corp., (1929) 208 Cal. 397, 404; People v. Duntley, (1932) 217 Cal. 150, 163; Klein v. Baker, (1931) 112 Cal. Ap. 157, 160; Webb v. Boyle, (1932) 125 Cal. Ap. 326, 327; Shannon v. Central-Gaither Union Sch. Dist., (1933) 133 Cal. Ap. 124, 128. A common carrier must, if able to do so, accept and carry whatever is offered to him, at a reasonable time and place, of a kind that he undertakes or is accustomed to carry. CC 2169. Applicants are engaged in common carriage. They are common carriers. Compare Producers Transp. Co. v. Railroad Com. of the State of California, (1919) 251 U.S. 228, 232; Pipe Line Cases (United States v. Ohio Oil Co.), (1913) 234 U.S. 548, 58 L. Ed. 1459, 34 Sup. Ct. Rep. 956. As common carriers they are also transportation companies within the meaning of the aforesaid provisions of the State Constitution. People v. Western Air Lines, Inc., (1954) 42 Cal. 2d 621, 639.

The effect of Article XII, Section 21, of the State Constitution upon applicants' proposals in this proceeding limits any increases which may be authorized in certain of applicants' rates. Increases should not be authorized in applicants' rates from Norwalk to San Diego. SDPC estimated that the volume of the commercial shipments of petroleum products which it would transport from Norwalk to San Diego during 1970 would total 3,196,000 barrels. The increase in revenue on this volume which would result under the sought rate increase of 2 cents a barrel would be $63,920. With disallowance of said rate increase, SDPC's estimate of revenues under the sought rates should be modified accordingly.

Applicable Charges for Income Taxes

We have hitherto held that for purposes of rate fixing, a public utility will not be allowed to charge to its operating expense for income taxes any amount in excess of the amount of income taxes lawfully assessed by the taxing authority and paid by said public utility (Decision No. 59926, 57 Cal. P.U.C. 598). This holding should be followed in this instance. The record shows that SDPC has followed the practice, for tax purposes, of computing depreciation expense on the basis of 22-year service lives for its depreciable properties. It appears that its income tax payments have been made accordingly. SDPC's 1970 depreciation expense estimates, on 22-year service lives, total $322,200 for its pipeline properties, including those used in the military transportation. This amount should be used in the development of the provision for income taxes to be allowed herein.

Summary

1. SPPL and SDPC seek increases in their rates for the transportation of petroleum products by pipeline from Watson and Norwalk to the San Diego area.

2. SPPL's pipeline facilities extend from Watson to Norwalk; those of SDPC from Norwalk to the San Diego area. SPPL provides the propulsion to Orange for shipments originating at Watson.

3. SPPL is compensated for such services as it performs by SDPC pursuant to a division-of-rates agreement.

4. The rate increases which are the subject of this application are sought primarily by SDPC. SDPC alleges insufficient earnings under present rates.

5. SDPC's operating results and estimated operating results, in terms of rate of return, for the years 1969 and 1970 are reported as follows:

	1969	1970
Under present rates	6.04%	4.82%
Under proposed rates	8.15%	7.06%

6. Not reflected in the foregoing figures are the results of certain "terminaling" operations of SDPC and operating results from the transportation of petroleum products from Norwalk to military installations in the San Diego area which SDPC performs for the United States government. Assertedly, neither the "terminaling" operations nor the military transportation are within the scope of SDPC's public utility pipeline services.

7. SDPC's terminaling operations at Mission Valley apparently consist of storage and of leasing of some of the company's tanks for storage purposes. The record is insufficient for determination of whether SDPC's earnings from said terminaling operations should be considered as part of the company's earnings from the pipeline operations.

8. SDPC's "terminaling" operations at Orange consist of the storage of petroleum products for Union Oil Company. The storage tanks which are used for this purpose are tanks used in, and essential to, SDPC's public utility pipeline operations. It appears that the storage is performed by SDPC as part of its public utility pipeline services. The revenues and expenses of the "terminaling" operations should be included with other revenues and expenses that make up the revenues and expenses of SDPC public utility pipeline services.

9. Revenues from SDPC's transportation to military installations in the San Diego area are as follows:

1969	$253,418	
1970	$235,800	(estimated)

It appears that the corresponding operating expenses (other than income), as assigned to said transportation by SDPC, are approximately as follows:

	1969	1970 (estimated)
Operating Fuel and Power	$13,763	$19,700
Management	8,535	5,900
Depreciation	10,600	10,600
Ad Valorem Taxes	1,426	1,500
	$34,324	$37,700

The services which SDPC provides in its transportation of the military shipments are part of the company's public utility pipeline services. The revenues and expenses applicable to said transportation should be included in the company's other public utility pipeline revenues and expenses.

10. It appears that interest expense in the following amounts also applies to the military transportation:

1969	$ 7,437	
1970	$ 14,200	(estimated)

These amounts, added to the interest expense applicable to SDPC's investment in its pipeline, result in the following totals:

1969	$176,874
1970	$205,500

11. SDPC's tariff rates for the transportation of petroleum products from Norwalk to the San Diego area are about 15 percent higher than those which SDPC assesses for the military transportation from Norwalk to the San Diego area.

    It appears that had SDPC assessed its tariff rates for the military transportation its revenues from said transportation would have been $39,500 and $35,400 more than the amounts shown above for 1969 and 1970, respectively.

    In the measurement of SDPC's needs for the increased rates which it seeks in this proceeding, the amount of revenues which the company foregoes in performing the military transportation at less-than-tariff rates should be taken into account.

12. SPPL and SDPC are not proposing increases in their rates from Watson and Norwalk to Orange, notwithstanding the fact that the costs of their transportation services to Orange have increased along with increases which they have experienced in other of their transportation services. Weight should be given to this fact in determining what, if any, increases should be authorized in applicants' rates to the San Diego area.

13. It appears that SDPC's cost estimates for 1970 overstate by $35,000 the level of relocation expenses which may reasonably be considered as normal for the company's operations under present conditions. The cost estimates should be reduced accordingly.

14. SDPC's depreciation expense for 1970, except that which SDPC assigned to the military transportation, is shown as $174,700. Adjustment of this amount (a) to include the depreciation expense assigned to the military transportation and (b) to give effect to depreciation heretofore accured and to remaining service lives of the properties involved would result in an amount of $157,500. This amount should be adopted, except in connection with the computation of income taxes, as explained below.

15. In April 1970 SDPC put into service a booster pump on its line in the Camp Pendleton area. The addition of this booster pump increased the company's expenses by about $6,000 a month. An amount of $18,000 should be added to the company's expense estimates for 1970.

16. The provision to be made herein for income taxes should conform to the amount which SDPC pays in accordance with its depreciation expense schedules used in the computation of said income taxes. The depreciation expense figure to be used for this purpose is $322,200.

17. Investment (rate base) data which SDPC presented as a measure of its earnings are not appropriate for the purposes of this proceeding. The amount which should be used herein for said purposes is $5,293,669, the company's average investment or rate base for 1970.

    This amount reflects the following factors:

    Depreciated investment (22-year service life) in pipeline properties as of December 31, 1969, including investment in properties used in military transportation but not including investment in land held for future use.

    Depreciated investment in pipeline properties as of December 31, 1970, is calculated as follows: Depreciated investment in pipeline properties as of December 31, 1969, reduced by 1970 depreciation in the amount of $157,500, and increased by $642,243 in additions to plant during 1970.

18. SDPC's estimate of 1970 revenues under the sought rates should be reduced by $63,920 to reflect the limiting effect of Article XII, Section 21, of the State Constitution upon increases in applicants' rates from Norwalk to the San Diego area.

Table No. 2 above summarizes SDPC's estimates of the company's revenues, expenses and financial operating results under present and proposed rates. These estimates, adjusted in conformity with the foregoing summary are reproduced in

Tables No. 3 and 4 below:

Table No. 3

Adjusted Estimates of SDPC's Revenues, Expenses,
Rate Base and Financial Results of Operations
Under Present Rates
(Based on 1970 Operating Experience)

	From Table 2	Adjustments	Adjusted Estimates
Revenues	$1,710,600	$235,800(a)	$1,981,800
		35,400(b)	
Expenses			
Operations	$ 376,700	$ 19,700(c)	$ 414,400
		18,000(d)	
Maintenance	163,600	35,000 (e)	128,600
General	141,200	5,900(c)	147,100
Depreciation	174,700	10,600(c)	
		27,800 (f)	157,500
Taxes	202,200	1,500 (c)	
		53,800 (g)	149,900
Taxes, Income	159,400		323,974 (h)
Total Expenses	$1,217,800		$1,321,474
Net Operating Revenues	$ 492,800		$ 660,326
Interest Expense	$ 191,300	14,200(c)	205,500
Net Income	$ 301,500		$ 454,826
Rate Base	$6,255,800		$5,293,669(i)
Rate of Return	4.82%(j)		12.5%(k)

Red figure or deduction.

(a) Estimated revenues from military transportation.
(b) Revenues foregone as result of reduced rates on military transportation; here added to equate military revenues with those which would have accrued under full tariff rates.
(c) Expenses applicable to military transportation.
(d) Increment to annualize additional costs of Camp Pendleton booster pump.
(e) Adjustment to eliminate effect of overstatement of relocation expense.
(f) Depreciation adjustment to remaining life basis.
(g) Deduction to transfer State income (franchise) taxes, including those applicable to income from military transportation, to Taxes, Income item.
(h) Income taxes computed after interest. Includes provision for State income (franchise) taxes.
(i) Revised rate base amount, calculated as stated in above summary.
(j) After interest and taxes.
(k) Before interest and after taxes.

Table No. 4

Adjusted Estimates of SDPC's Revenues, Expenses, Rate Base and Financial Results of Operations Under Proposed Rates (Based on 1970 Operating Experience)

	From Table 2	Adjustments	Adjusted Estimates
Revenues	$1,986,900	$(63,920)[a] $271,200 [b]	$2,194,180
Expenses			
Operations	$ 376,700		$ 414,400[c]
Maintenance	163,600		128,600[c]
General	141,200		147,100[c]
Depreciation	174,700		157,500[c]
Taxes	202,200		149,900[c]
Taxes, Income	295,300		436,016[d]
Total Expenses	$1,353,700		$1,433,516
Net Operating Revenues	$ 633,200		$ 760,664
Interest Expense	$ 191,300	14,200[e]	$ 205,500
Net Income	$ 441,900		$ 555,164
Rate Base	$6,255,800		$5,293,669[f]
Rate of Return	7.06%[g]		14.37%[h]

( ) Red figure or deduction.

(a) Deduction to give effect to inapplicability of increases in rates, Norwalk to San Diego.
(b) Revenue adjustments as per Table 3.
(c) Adjusted expenses as per Table 3.
(d) Income taxes computed after interest. Includes provision for State income (franchise) taxes.
(e) Interest expense applicable to military transportation.
(f) Revised rate base amount, calculated as stated in above summary.
(g) After interest and taxes.
(h) Before interest and after taxes.

The record herein shows that as of March 31, 1970, SDPC's equity in its operations was $3,837,011. On the basis of the company's valuations of its pipeline properties (including military) and of its other properties, respectively, as of December 31, 1969 and 1970, it appears that the pipeline properties comprise about 71.64 percent of the company's total tangible properties. Applying this percentage to the total equity figure of $3,837,011 produces an amount of $2,748,834, which amount may be deemed as approximating the portion of the company's equity applicable to the pipeline operations, inclusive of the military transportation. Measured in relation to said amount, the amounts of net income under present and proposed rates which are shown in Tables Nos. 3 and 4 above are the equivalent of a return of 16.5 percent on equity under present rates and a return of 20.2 percent on equity under the proposed rates.

In evaluating the data in Tables Nos. 3 and 4, we are mindful that the dollar earning figures are somewhat overstated by the inclusion, as revenues, of the amount of money which the company foregoes in performing the military transportation at reduced rates. We are of the opinion, nevertheless, that the tables reasonably portray the level of earnings available to the company under present rates and the level of earnings that would be available under proposed rates. It should be noted, moreover, that the earnings figures do not include the company's earnings from the so-called terminaling services at Orange, which services, on this record, appear to be part of the company's public utility pipeline operations. To this extent Tables Nos. 3 and 4 understate SDPC's earnings from its public utility pipeline operations.

Findings

1. The data in Tables Nos. 3 and 4 above reasonably set forth SDPC's earning position, with respect to the company's public utility pipeline operations, under present and proposed rates.

2. The company's earnings under present rates are sufficient to compensate the company reasonably for its public utility services.

3. The sought increases in the company's rates have not been justified.

Conclusion

The application should be denied.

O R D E R

IT IS ORDERED that Application No. 51870 is denied.

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

Dated at San Francisco, California, this 23rd day of FEBRUARY, 1971.

Chairman

Commissioners

Commissioner William Symons, Jr., being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner Vernon L. Sturgeon, being necessarily absent, did not participate in the disposition of this proceeding.