BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

In the Matter of the Application of THE GAS COMPANY, LLC For Approval to Commit Funds in Excess Of $500,000 for Relocation and Replacement of Its Pier 38 Propane-Air Standby System and Kapalama Regulator Station.	)	DOCKET NO. 2006-0119

DECISION AND ORDER NO. 23008

Filed NOV. 2, 2006

At 2 o'clock P. M.

Karen Higashi.

Chief Clerk of the Commission

ATTEST: A True Copy
KAREN HIGASHI
Chief Clerk, Public Utilities
Commission, State of Hawaii.

K. Higashi.

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DECISION AND ORDER

By this Decision and Order, the commission approves THE GAS COMPANY, LLC's ("TGC") request to commit approximately $2,622,600 to replace and relocate its Propane-Air Standby System and Kapalama Regulator Station to a new site at Pier 38 in Honolulu Harbor, pursuant to Paragraph 2.3(f)(2) of the commission's General Order No. 9, Standards for Gas Service, Calorimetry, Holders & Vessels in the State of Hawaii ("G.O. No. 9").

I.

Background

A.

TGC's Application

TGC is a Hawaii limited liability company that is franchised to supply utility gas in the State of Hawaii. On Oahu, TGC operates facilities used in the manufacture of synthetic natural gas ("SNG"), and a transmission and distribution system for the delivery of the SNG by pipeline. TGC also operates various facilities used for the delivery of liquefied petroleum gas ("LPG") to over 33,000 utility customers on the island.

On May 11, 2006, TGC filed an Application requesting commission approval for TGC to commit funds in excess of $500,000 to replace and relocate its Propane-Air Standby System and its Kapalama Regulator Station, which are currently located at Parcel 9 at Pier 38 in Honolulu Harbor, to a new, adjacent site at Pier 38 in Honolulu Harbor designated as the "Malama Site"[1] ("Proposed Project").[2] TGC states that the Proposed Project is required because the State of Hawaii Department of Transportation, Harbors Division ("DOT") plans to develop the current site of the equipment as a part of its Domestic Fishing Village Project, and because Chevron plans to decommission its adjacent facilities, including its fuel tanks and containment walls, where some of TGC's equipment is mounted. TGC filed its Application pursuant to Paragraph 2.3(f)(2) of the commission's G.O. No. 9, governing expenditures by gas utilities in excess of $500,000 for capital improvements.

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[1]DOT has not yet designated a lease parcel number for this site.

[2]Application, Exhibits A-C, Verification, and Certificate of Service, filed on May 11, 2006 (collectively, "Application"). TGC served copies of its Application on the DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS, DIVISION OF CONSUMER ADVOCACY ("Consumer Advocate"), an <u>ex officio</u> party to this docket, pursuant to Hawaii Revised Statutes ("HRS") § 269-51 and Hawaii Administrative Rules ("HAR") § 6-61-62. No persons moved to intervene or participate in this proceeding.

1.

TGC's Existing Facilities

On Oahu, TGC manufactures SNG at its SNG plant located at Campbell Industrial Park. The SNG is then injected into a 22-mile long transmission pipeline where it is delivered to five interconnected SNG distribution systems (Makakilo, Kunia, Pearl City, Aiea, and Kapalama) via "letdown" regulators. TGC's Kapalama Regulator Station is located at the eastern end of the transmission pipeline and serves the largest SNG distribution system, from Kapalama to Hawaii Kai.

Under normal conditions, the Kapalama regulator is necessary to "let down" or reduce the gas pressure in the transmission line from a nominal transmission pressure (between 250 pounds per square inch guage ("psig") to 450 psig) to a nominal distribution pressure of 40 psig. When the SNG plant is not available to manufacture SNG (i.e., in either a planned or unplanned outage), propane-air from the propane-air system located at Pier 38 is blended with, and supplements, the SNG as it exits the transmission pipeline at the Kapalama Regulator Station until the SNG plant is back online and able to produce a sufficient quantity of SNG for all of TGC's SNG utility customers.

Both the regulator station and propane-air system were placed in service in 1988 at their existing location at Parcel 9, at Pier 38. TGC currently leases the property upon which the propane-air system and Kapalama Regulator Station are located from DOT, pursuant to a month-to-month Revocable Permit.[3] Chevron operates a facility at Pier 38 that adjoins TGC's facilities.

As described by TGC in the Application, the existing propane-air system currently consists of:

LPG Storage:	two temporary 30,000-gallon tanks (formerly seven permanent 30,000-gallon tanks)
Vaporizer:	Sam Dick, rated at 500 MMBTUH
Air Compressor:	two Ingersoll Rand, rated at 93,000 SCFH/each
Mixer:	Sam Dick model
Diesel Generator:	1,000 kW Caterpillar
Diesel Storage:	3,000 gallon aboveground tank
Flare Stack	

Application, at 5. Exhibit A, attached to the Application, indicates that the propane-air facilities are located at Pier 38, at the eastern end of the SNG transmission pipeline.

The Kapalama Regulator Station is also located at the eastern end of the transmission pipeline at Pier 38.[4] It consists of: first and second stage regulators that serve to reduce the gas pressure in the transmission line, a meter, and telemetry controls.

2.

Justification for the Proposed Project

In the Application, TGC explains that, in 1999, DOT began construction of its Domestic Fishing Village Project at

[3]See Responses to CA-IR-1 and CA-SIR-8c.

[4]See Exhibit A, attached to Application.

Pier 38 at Honolulu Harbor. Initial plans for this project called for a multi-user building to house seafood and fresh fish processors, wholesalers, retailers, and related suppliers and services. At various times during DOT's development of the project, DOT instructed TGC to either completely remove or relocate its facilities. Most recently, in June 2005, TGC states that DOT reconsidered its prior decision to require TGC to permanently remove all of its equipment from Pier 38, and instead, agreed to allow TGC to relocate both its propane-air facilities and Kapalama Regulator Station to an adjacent parcel at Pier 38 under a long-term lease arrangement. TGC therefore requests approval, as discussed in further detail below, to relocate its equipment from its current location at Parcel 9 at Pier 38 in Honolulu Harbor, to an adjacent area designated as the "Malama Site" at Pier 38 in Honolulu Harbor, which will be covered by a new thirty-five (35) year term lease agreement with DOT.

In addition, TGC states that the Kapalama Regulator Station is located on the exterior of a containment wall that surrounds Chevron's fuel tanks, and that this location is approximately 400 feet away from the propane-air system. According to TGC, Chevron has indicated that it will be decommissioning its adjoining facility, and removing its fuel tanks, as well as the containment walls where the piping and equipment for the Kapalama Regulator Station are mounted. Thus, TGC contends that it needs to move its regulator station facilities, due to Chevron's decommissioning of its adjoining facilities.

3.

Description of the Proposed Project

TGC plans to construct all new facilities to replace its regulator station and propane-air systems. Specifically, TGC proposes to purchase and install the following equipment at the new Malama site at Pier 38:

> an Algas SDI Aquavaire Q5500H vaporizer (rated at 500 MMBTUH), three diesel-fired air compressors (rated at 1272 CFM/each), a 500 MMBTUH mixer, first and second stage regulators, meters and associated controls . . . . two permanent 30,000-gallon mounded[5] LPG storage tanks, flare stack and diesel generator[.]

Application, at 7-8.

In addition, TGC plans to construct a control and storage building and a 3,000-gallon above ground diesel storage tank. Relocation of the facilities will also require TGC to extend the transmission and distribution pipelines by four hundred feet to connect them to the relocated Kapalama Regulator Station. TGC states that installation of the new propane-air system "has an added benefit of implementing state-of-the-art technology that was not available in 1988 when the existing system was purchased. These include computerized controls,

[5]TGC notes that mounding (tanks covered with a layer of earth) is required by DOT so that TGC's facility will not detract from the State's effort to expand the nearby Fishing Village and attract other businesses to the area. See Application, at 8 n.5.

enhanced fail-safe operation and remote, unmanned operation." Application, at 7.

TGC intends to complete the Proposed Project in three phases. According to TGC, because a backup system for the SNG plant must be available and operational at all times, it is necessary to keep the existing propane-air system and Kapalama Regulator Station operational until the replacement propane-air system and replacement regulator station are installed and commercially operational at the new site. For this reason, the Proposed Project has been separated into three phases: (1) construction of the new propane-air and regulator station facilities; (2) startup and final testing of the new facilities; and (3) cutover, shutdown, and removal of the existing facilities.

4.

Cost of the Proposed Project

The total cost of the Proposed Project is estimated to be $2,622,628. Exhibit C of the Application sets forth the following cost allocations for the Proposed Project:

Materials	$247,479
Labor	$23,630
Outside Construction	$1,858,423
Engineering	$254,675
(Plus 10% Contingency)	$238,421
Total Cost	$2,622,628

Application, Exhibit C.

TGC represents that the cost for "Materials" is for two 30,000-gallon LPG tanks (plus shipping) needed for the Proposed Project. Costs for "Labor" represent TGC's estimate of the costs for its own employees' time on-site during construction. "Outside Construction" costs ($1,858,423) comprise the majority of the total estimated costs for the Proposed Project, of which costs for "Design and Fabrication" by TGC's outside contractor, Standby Systems, Inc. ("Standby Systems"), amount to $1,012,910. Regarding the selection of Standby Systems, TGC states, "[a]lthough not the lowest bidder, they offered a strong and responsive management team, outstanding design skills, commitment to safety, and good references, which were deciding factors in their selection." Application, at 10.

B.

Consumer Advocate's Position

On August 31, 2006, the Consumer Advocate filed its Statement of Position, informing the commission that it does not object to the Application.[6] As discussed in its Statement of Position, the Consumer Advocate focused its review of the Application on the following issues:

1. Is the relocation site selected by TGC reasonable?

2. Is the scope of the replacement equipment reasonable?

3. Are the estimated project costs reasonable?

[6]Division of Consumer Advocacy's Statement of Position, filed on August 31, 2006 ("Statement of Position").

Statement of Position, at 4.

With respect to the first issue, the Consumer Advocate concluded that the Malama site is the preferred site to relocate TGC's equipment. The Consumer Advocate noted, however, that it is concerned that the annual cost of the lease with DOT has not yet been negotiated, and that it is unable to make a determination of the cost impact associated with the selection of the Malama site at this time. Accordingly, the Consumer Advocate recommends that TGC file a copy of the lease agreement with the commission and Consumer Advocate once it is finalized. If there are any terms or conditions in the lease agreement that the Consumer Advocate deems unreasonable, it intends to take the appropriate regulatory action at the next reasonable opportunity (i.e., at TGC's next rate case proceeding).

As to the second issue, the Consumer Advocate considered, in particular, TGC's estimated costs related to the proposed replacement of: (1) its propane-air system; (2) its existing two temporary 30,000-gallon storage tanks with two new mounded storage tanks of equivalent capacity; and (3) its existing one megawatt diesel engine generator with a sixty kilowatt LPG-fired generator. Based on its review, the Consumer Advocate found the foregoing replacement costs to be reasonable.

Finally, regarding the third issue, the Consumer Advocate focused its review on TGC's estimated costs for outside construction, materials, and engineering. The Consumer Advocate found TGC's estimated costs for outside construction and materials to be reasonable, but stated that it was uncertain how TGC derived its engineering costs. Nevertheless, the Consumer Advocate noted that TGC's engineering costs are estimates at this time, and that it intends to determine the reasonableness of TGC's actual costs when TGC submits a final cost report. If the Consumer Advocate has any concerns regarding the actual costs for the Proposed Project, it intends to pursue them in TGC's next rate case proceeding, following commercial operation of the Proposed Project.

II.

Discussion

G.O. No. 9 states, in relevant part:

> Proposed capital expenditures for any single project related to plant replacement, expansion or modernization, in excess of $500,000 or 10 per cent of the total plant in service, whichever is less, shall be submitted to the Commission for review at least 60 days prior to the commencement of construction or commitment for expenditure, whichever is earlier. If the Commission determines, after hearing on the matter, that any portion of the proposed project provides facilities which are unnecessary or are unreasonably in excess of probable future requirements for utility purposes, then the utility shall not include such portion of the project in its rate base. If the utility subsequently convinces the Commission that the property in question has become necessary or useful for public utility purposes, it may then be included in the rate base. Failure of the Commission to act upon the matter and render a decision and order within 90 days of filing by the utility shall allow the utility to include the project in its rate base without the determination by the Commission required by this rule.

G.O. No. 9, 2.3(f)(2).

Here, the Proposed Project appears reasonable and in the public interest given DOT's plans to develop the existing site of TGC's facilities as a part of its Domestic Fishing Village Project, and Chevron's plans to decommission its facilities, including dismantling its tanks and containment walls.

Furthermore, as thoroughly discussed in the Consumer Advocate's Statement of Position, it appears that the proposed replacement of TGC's equipment appears reasonable, since the newer technology will likely improve the quality of TGC's service, and enhance the safety of TGC's operations. The commission therefore finds TGC's estimated costs to replace and relocate its equipment to be reasonable. Accordingly, for the foregoing reasons, the commission concludes that the Proposed Project should be approved.

The commission, however, agrees with the Consumer Advocate's recommendation that, in order to more accurately determine the cost impact of the Proposed Project, TGC should be required to file a copy of the lease agreement with the commission and the Consumer Advocate once the lease agreement is finalized. In addition, TGC will be required to file with the commission and the Consumer Advocate a final cost report within sixty (60) days of the Proposed Project's commercial operation, with an explanation of any deviation of ten (10) percent or more in the Proposed Project's actual cost from that estimated in the Application.

III.

Orders

THE COMMISSION ORDERS:

1. TGC's request to expend an estimated $2,622,628, to replace and relocate its Propane-Air Standby System and Kapalama Regulator Station to the Malama site at Pier 38 in Honolulu Harbor, is approved; provided that no part of the Proposed Project may be included in TGC's rate base unless and until the Proposed Project is in fact installed, and is used and useful for public utility purposes.

2. TGC shall submit a copy of its lease agreement with DOT, to the commission and the Consumer Advocate once the lease agreement is finalized.

3. TGC shall file a report within sixty (60) days of the Proposed Project's commercial operation, with an explanation of any deviation of ten (10) percent or more in the Proposed Project's actual cost from that estimated in the Application. TGC's failure to submit this report will constitute cause to limit the cost of the Proposed Project, for ratemaking purposes, to that estimated in the Application.

4. TGC shall conform to the commission's orders set forth in paragraphs 2 and 3, above. The failure to adhere to the commission's orders shall constitute cause for the commission to void this Decision and Order, and may result in further regulatory action as authorized by law.

DONE at Honolulu, Hawaii NOV - 2 2006.

PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

By
Carlito P. Caliboso, Chairman

By
John E. Cole, Commissioner

APPROVED AS TO FORM:

Kaiulani Kidani Shinsato
Commission Counsel

2006-0119.eh

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing Decision and Order No. 23008 upon the following parties, by causing a copy hereof to be mailed, postage prepaid, and properly addressed to each such party.

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DATED: NOV - 2 2006