

Decision No. 31907

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application of)
PACIFIC GAS AND ELECTRIC COMPANY,)
a corporation, for an order of the)
Railroad Commission of the State of)
California, granting to applicant a)
certificate of public convenience and)
necessity to construct, operate and)
maintain, in portions of the Counties)
of Tehama, Glenn, and Colusa, the)
electric lines and facilities herein)
described; authorizing the construction)
and installation of said electric lines)
in accordance with so-called substandard)
construction; and approving the)
establishment of a special rate area)
embracing the territory in which said)
electric lines are to be located.)

ORIGINAL

Application No. 22527.

R. W. DuVal, for Applicant
W. T. Belieu and E. A. Garland, for
Rural Homes Electric Cooperative, Inc.

BY THE COMMISSION:

O P I N I O N

In this application Pacific Gas and Electric Company re-
quests the necessary authority to exercise certain franchise rights
now held; to construct, operate and maintain certain extensions to
its electric distribution system in portions of Tehama, Glenn and
Colusa Counties not now served; and to deviate from the requirements
of this Commission's General Order No. 64-A (Rules for Overhead Line
Construction) in constructing the aforesaid lines. It also seeks
the approval of the Commission to establish a new rate area
embracing the territory in which the aforesaid electric lines are
to be located and operated, and to charge special rates therein.

Notice of hearing was given to all interested parties,
including the District Attorneys of the counties involved.

Public hearing on this application was held in the town of Elk Creek, California, on March 9, 1939 at which place and time evidence was taken by Examiner Wehe and the matter was submitted for decision.

The area in which this new extension is to be built comprises portions of Tehama, Glenn and Colusa Counties, lying to the west of Applicant's existing electric distribution system in the Sacramento Valley. At the present time the cities of Corning, Orland, Willows and intervening rural areas are the nearest sections being served. Within the aforesaid unserved area are situated the communities of Paskenta and Fournoy in Tehama County; Newville, Chrome, Elk Creek and Fruto in Glenn County; Stonyford and Lodega in Colusa County; and rural homes between and adjacent to these various communities. According to testimony of Applicant's witness it is anticipated, from a canvass which has been made, that 266 customers would be served by the proposed project. The record further shows that 13 additional prospective customers are yet to be solicited and four more prospective customers may be furnished service by slight reroutings of the proposed lines. To serve this entire group of new customers will require the construction of approximately 132 miles of 12,000-volt lines located substantially in accordance with the description shown in Exhibit "B" appended to the application which is amplified by Exhibit No. 1 introduced in evidence at the hearing.

The evidence shows that the annual gross revenue reasonably to be expected from the operation of this project is in the amount of \$16,900. The record further shows that such estimate is based upon an actual canvass of prospective customers and is

predicated upon the application of the rates generally now in force in the unincorporated territory served by Applicant, plus 33-1/3 per cent.

Applicant's witness testified that the building of this project will result in an estimated capital expenditure of from \$900 to \$1,000 per mile. Such costs will not only include the necessary investment to construct a single phase 12,000-volt line, but likewise will provide for all necessary transformers, service drops and meters, as well as the survey costs of laying out the project and the securing of the necessary right of ways.⁽¹⁾

The record shows that Applicant Company could not build the project with its own organization for costs within the estimates heretofore given; nevertheless, testimony was adduced showing that such costs could and would be realized by contracting the project to a reliable and qualified electrical contractor; that such contractor, using the standards as set forth in this Commission's General Order No. 64-A (Rules for Overhead Line Construction) and as modified by Rural Line Deviations, contained in Exhibit "C" of the application, would guarantee, under suitable bond, to deliver complete to Applicant the physical electric lines and their appurtenances at a price not to exceed the maximum figure of \$1,000 per mile.

It is the Commission's opinion that the performance of any contract that may be executed for the purpose herein discussed should be secured by a suitable bond that the work will be performed as specified and at the cost agreed to.

(1) It was contemplated that all right of ways would be donated and that the costs involved would be limited to the expenses incidental to the signing up and transfer of title.

The evidence shows clearly that this proposed electric extension is being made in "lean" territory. The area which is proposed to be served is not newly developed, but has long been settled. It is given over, essentially, to stock raising and farming, and much of it might be classed as marginal lands. Because of the character of farming, homes are widely scattered. The survey shows that for the project as a whole, including the small towns and communities, the average number of customers to be served per mile of line is much less than normally considered necessary.

This means that the investment required in electric line facilities per customer is relatively high. To compensate for this higher investment cost, customer usage of electricity and/or rates should be correspondingly higher. The record shows that the relationship between investment and annual revenue is high in this project, even after giving full weight to the proposed increase of 33-1/3 per cent in the rates to be charged, and after realizing the low construction cost. Such a relationship, the record shows, as between investment and the annual revenue will be a ratio of between 7 or 8 to 1. This corresponds with the established general practice of Applicant of making line extensions free up to a ratio of 5 to 1. Where the ratio exceeds this last named figure of 5 to 1, it is the practice for Applicant to require prospective customers to advance the amount by which the actual investment exceeds the amount computed on this 5 to 1 basis.

While it is not a clearly established fact that, in making line extensions, the Company cannot increase the ratio of investment to annual revenue beyond 5 to 1, and justify the same on cost of service, yet deviations from a uniform practice at least raise the question of discrimination and whether a precedent is being estab-

lished when a more liberal extension policy is used.

There is another aspect to this proposed project, which has a direct bearing upon the requests made in this application. The record unquestionably justifies the conclusion that if it had not been for the competitive threat of the Rural Homes Electric Cooperative, Inc.,⁽²⁾ the Applicant would have requested permission to build a much lesser extension. This is substantiated by the fact that Applicant did in September, 1938, informally ask permission to construct a portion of the present project, which would have been but 38.8 miles in length, as compared to the 132 miles here under application. It is probable that such a project could have been constructed within the usual revenue-investment relationship and at no increase in rates.⁽³⁾

While the Commission is of the opinion that any determination of the feasibility of a proposed extension should rest essentially on the cost to serve, yet there are other factors that should not be overlooked. This proposed extension is not the usual one where a general rule can be applied with resulting fairness to all. This project represents an extension of considerable magnitude and one in which there is a large public interest, calling for service in an area which is not now enjoying electric utility service from any source. In addition to this there is also the competitive aspect which has heretofore been presented. It likewise differs in

(2) A cooperative enterprise made up of prospective users of service and presumably ready to proceed with development and operation in accordance with provisions of the Rural Electrification Act of 1936.

(3) The Commission in reply, by letter dated October 26, 1938, questioned the justification of Applicant making a limited extension which would interfere with the development of a larger project by the people themselves, and which latter project would serve substantially the entire area.

that the establishment of a special rate area is asked wherein higher than normal rates are to be charged. Because of this surcharge feature, the actual net revenue to be realized by Applicant should be more favorable than is implied through the relationships heretofore presented in respect to investment and gross revenue.

It long has been the policy of this Commission to foster and encourage the development of rural line extensions. The Commission is of the opinion that the present project is warranted and in the interest of the general public and should be permitted with the minimum of restrictions.

The requests, that the Applicant be permitted to establish a special rate area for the territory covered by this project and to surcharge existing rural rates for other rural service by 33-1/3 per cent, appear fully justified under the circumstances and, in fact, we deem the surcharge necessary.

The period during which the surcharge will remain in effect is indeterminate at this time. Users of service may expect that when the investment-revenue ratio has been reduced to approximately 5 to 1, the surcharge will be entirely removed.

In sanctioning these requests, which the Order will provide, the Commission does not, and cannot, bind itself as to future rate adjustments. The Commission is of the opinion that, because of the conditions present in the project, a preliminary or trial period of two years from date when service is hereafter first inaugurated should be permitted. Such a period will give time for wiring of homes, purchasing of appliances, and enable customers generally to accommodate themselves to the use of electric service. After such a period, if revenues have not come up to the representations made in the record, rate adjustments may prove necessary.

The Commission likewise believes it necessary to be free to make adjustments on Applicant's system operations and earnings for any deficiencies that may accrue from this project after the initial two-year period as set forth above. Such adjustments might be deemed necessary in case the investment-revenue ratio did not at least equal 6 to 1.

The question likewise arises as to the basis on which additional extensions to the project here under consideration will be constructed. It is the opinion of the Commission that such additional extensions made during the first two years, dating from the beginning of the original project, should be constructed on the same investment-revenue basis as is shown by the original project, and that after such two-year period, they be constructed in accordance with the then existing general extension policy, due consideration being given to any added revenue occurring because of the rate surcharges.

The evidence shows that Applicant has, for many years, supplied service and has constructed electric lines in Tehama and Glenn Counties in accordance with franchise rights granted to its predecessors and under ordinances issued by those political subdivisions, prior to the effective date of the Public Utilities Act. Furthermore, Applicant, according to the record, is furnishing electric service in Colusa County under franchise rights granted by that county in Ordinance No. 100, and by virtue of a certificate of public convenience and necessity issued by this Commission. Certification in the Order will be made in accordance with these facts.

At the hearing a large number of persons were present but no one offered any protest to the granting of the application.

In fact all those who expressed themselves, including representatives of the Rural Homes Electric Cooperative, joined hands with Applicant in asking that the Commission authorize the extension in its entirety and as set forth in the application.

O R D E R

A public hearing having been had, the matter having been submitted for decision, and the Commission being fully advised in the premises, it is found as a fact that public convenience and necessity require the construction of an extension of the electric distribution system of Pacific Gas and Electric Company in the counties of Tehama, Glenn and Colusa, substantially as proposed in Exhibit "B" attached to the above application, and as amplified by Exhibit "1," and as provided in the Opinion, and IT IS ORDERED that Pacific Gas and Electric Company be and it is hereby granted a certificate of public convenience and necessity therefor, pursuant to Section 50(a) of the Public Utilities Act.

It is further found as a fact that public convenience and necessity require the exercise by Pacific Gas and Electric Company of the franchise rights granted by Ordinances No. 30 and 45 of the counties of Tehama and Glenn, respectively, in that certain territory to be served by the extension referred to above with subsequent extensions thereof, and IT IS ORDERED that Pacific Gas and Electric Company be and it is hereby granted a certificate of public convenience and necessity therefor, pursuant to Section 50(b) of the Public Utilities Act.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company be and it is hereby authorized in the construction of the

above extension to deviate from the provisions of General Order No. 64-A in accordance with the provisions set forth in Exhibit "C" attached to the application insofar as they are applicable to the particular type of construction to be employed.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company be and it is hereby authorized to establish a special rate area embracing the territory in which the extension project herein authorized is to be located.

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company be and it is hereby authorized to charge, for service rendered in the aforesaid special rate area, the rates contained in its Schedules No. L-3, L-4, C-1, D-3, D-8, DW, P-1, P-3 and P-13, (now on file with the Commission) subject, however, to a temporary surcharge of thirty-three and one-third (33-1/3) per cent.

The foregoing authorizations are granted subject to the following conditions and not otherwise:

- (1) That Pacific Gas and Electric Company shall file with the Railroad Commission, within six (6) months after the date hereof, a statement showing by accounts, under the Uniform System of Accounts prescribed by the Commission, the cost of acquiring and constructing the electric distribution system herein authorized.
- (2) That until otherwise ordered by the Railroad Commission, Pacific Gas and Electric Company shall file with the Commission semi-annual statements showing by accounts, under the system of accounts prescribed by the Commission, the investment in said distribution system at the close of the semi-annual period covered by said statement and the operating revenues for the semi-annual period in the special rate district herein authorized.

The first semi-annual statement shall be for the six months ending June 30, 1940, and shall be filed on or before August 1, 1940. Subsequent semi-annual statements shall be filed within thirty days after the close of each semi-annual period.

- (3) That Pacific Gas and Electric Company shall, within sixty (60) days from the date of this Order, file the rate schedules herein authorized and in a manner satisfactory to the Railroad Commission, and with such filing shall submit a map setting forth the special rate area herein authorized, together with a "Preliminary Statement" suitably defining the boundary of such rate area.
- (4) That the authority herein granted contemplates construction of the proposed extension substantially in its entirety and is not to be construed as authorizing a lesser construction.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated, San Francisco, California, this 11th day of April, 1939.

Rayburn
Francis P. DeWitt
W. B. K.
Justice D. Coe
Commissioners.