

Decision No. 23773

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of
 PACIFIC GAS AND ELECTRIC COMPANY, a
 corporation, for a certificate of
 public convenience and necessity to
 construct, operate and maintain the
 natural gas project herein described;
 for a preliminary order under Section
 50 (c) of the Public Utilities Act
 re. the exercise of a gas franchise
 hereafter to be obtained from the
 County of Humboldt; for authorization
 to supply natural gas service in the
 CITY OF EUREKA and to file and make
 effective rates applicable to such
 service, etc.

ORIGINAL

Application No. 23773.

R. W. DuVal for Pacific Gas and
Electric Company, Applicant.

CRAEMER, COMMISSIONER:

O P I N I O N

In Application No. 23773 and the supplement thereto,
the Pacific Gas and Electric Company petitions for an Order of
the Railroad Commission substantially as follows:

1. Issue its Order granting and conferring upon Applicant, as provided for by the provisions of Section 50 of the Public Utilities Act of the State of California, all necessary permission and authority to construct, operate, and maintain the gas transmission line project described in the body of this application, declaring that public convenience and necessity now require and will require the construction by Applicant of said gas main, including the installation of the necessary meters, regulators, odorizers, station equipment and yard piping, and the use by it of all lands and the exercise of all permits, easements and franchises which may be used or useful in connection with the construction, operation and maintenance of said main and the transmission,

distribution and sale of natural gas by means thereof, and issuing to Applicant a certificate declaring that the present and future public convenience and necessity require or will require that such work be done and such construction be made by Applicant.

2. Issue its Order granting to Applicant a certificate declaring that the present and future public convenience and necessity require and will require the exercise by it of the right, privilege and franchise granted to Applicant by Ordinance No. 204 of the Board of Supervisors of the County of Humboldt, State of California, all as provided for in Section 50 (b) of the Public Utilities Act of the State of California.
3. Grant and confer upon Applicant all necessary permission and authority, upon completion and placing in operation of said proposed natural gas project:
 - (a) to furnish and supply to its customers in the City of Eureka and territory contiguous thereto, natural gas to be obtained from Tompkins Hill gas field in lieu of the manufactured gas now supplied to said customers;
 - (b) to file the schedule of natural gas rates and charges set forth in Exhibit "C" thereof and to make the same effective on regular monthly meter readings taken on and after the 15th day following commencement of natural gas service in the areas involved;
 - (c) to file and make effective a revised page 1 of Applicant's Rule and Regulation No. 2 in words and figures as written in the form therefor in Exhibit "B" thereof;
 - (d) following the commencement of natural gas service in the City of Eureka and concurrently with the making effective of the rates and charges set forth in the gas rate schedule marked Exhibit "C" thereof, to withdraw and cancel the following filed gas rate schedules of Applicant, namely:

G-60 (Revised Sheet C.R.C. No. 717-G)
GH-60 (Revised Sheet C.R.C. No. 718-G), and
 - (e) to withdraw and cancel page 1 of its presently filed gas Rule and Regulation No. 2 (Revised Sheet C.R.C. No. 860-G).

A public hearing was held in the City of Eureka on Thursday, November 14, 1940, at which time and place the matter was submitted for decision.

It is of record that Applicant is now and has been serving customers in Eureka with a manufactured oil gas, generated in its own plant, since 1927 (and its predecessor prior to that period), and it proposes in the pending proceeding to secure the necessary authority in order to serve natural gas rather than manufactured gas in the Eureka area.

Evidence shows that natural gas was discovered by The Texas Company in the year 1937 approximately 14 miles southeast of Eureka, in what has been designated as the Tompkins Hill gas field, and that at the present time there are three developed gas wells capable of producing a dry gas of a heat content of approximately 1040 British thermal units per cubic foot. The testimony of Applicant's witnesses further shows that the quality, pressures and probable extent of the gas reserves are such as to justify the Applicant to make the expenditures proposed herein in order that said gas supply may be made available for distribution in Applicant's system in Eureka.

In order to carry out the program, Applicant proposes to construct, operate and maintain, in addition to the present gas facilities in Eureka, a high pressure transmission gas line extending from the Tompkins Hill gas field to the City of Eureka. Said line is to be approximately 14 miles in length and 4 inches in diameter. Applicant proposes to lay said line, in part, on private right of way and, in part, on public highways, streets, roads and places in the City of Eureka and in the County of Humboldt. It is of record that Applicant now holds the necessary franchises, both in the City of Eureka and in the County of Humboldt, and has a certificate as to the former granted by this Commission's Decision No. 33368, under date of July 30, 1940.

The estimated capital expenditure of the aforesaid project is itemized thus:

Landed capital	\$ 7,500
74,000 feet 4-1/2 inch O.D. wrapped main installed	59,200
Field meter, regulators, odorizer and station equipment	6,500
Transmission regulator	750
Plant regulators and yard piping	1,250
Overhead construction costs	<u>12,032</u>
Total Net Expenditure	<u>\$87,232</u>

The record further shows that in addition to the aforesaid capital expenditures there will be other initial costs in cutting over to natural gas. Such costs will be incurred because of the added maintenance requirement to reduce increased gas leakage and that cost which is incidental to the adjustment of customer appliances in order that the appliances may properly burn the natural gas. In making such adjustment for the 1,900 odd gas customers now served, the cost is estimated at \$13,000. The utility proposes to bear these items of cost and to charge each directly to expenses as incurred.

In reference to the rate to be charged for the natural gas to be served, Applicant proposes to charge the identical rates which are now in effect in filed Schedules G-60 and GH-60, except that a rate provision is made to serve customers lying outside the incorporated limits of Eureka. For such outside service it is proposed that the minimum shall be 20 cents per meter per month higher than for the service inside the City, which differential is fairly uniformly applied throughout Applicant's other service areas. At the present time no general gas service is rendered except within the City of Eureka.

While the proposed rates are identical per unit volume of gas, actually however all consumers using the minimum or more will realize very material savings because of the greatly increased heat content of the natural gas as compared to the present manufactured gas. As heretofore stated, the natural gas has a heat content of 1040 heat units as compared to approximately 540 for the artificial gas. The savings to customers will range from approximately 12 per cent for a usage of 300 feet to between 30 and 40 per cent for the average consumer.

Under revised Rule and Regulation No. 2 - Character of Service (Exhibit "B" attached to the application), Applicant proposes to maintain the heating value of the gas served in the Humboldt Division between the limits of 950 and 1050 B.t.u. dry basis. (1)

Applicant's witnesses presented evidence as to earnings realized on its gas operation in Eureka by years from 1927 through 1939. There likewise was presented an estimate as to what the company expected during the first three years of natural gas operation. These figures indicate that the earnings have been disappointing and unsatisfactory inasmuch as there has been a continual decline and for the year 1939

(1) In the North Bay Division of Applicant's gas territory, where natural gas produced is at approximately the same 1040 B.t.u. heat content, Rule and Regulation No. 2 provides for a service range of from 1000 to 1100 B.t.u. Applicant points out that because there is but one known source of natural gas in the Humboldt Division and with no pipe line connections to other divisions, it would be meaningless to set such a high upper limit when the actual heat content of the gas was but 1040 B.t.u. It was further pointed out that in the North Bay Division, through interconnections, higher heating value gas could be supplied, thus justifying the higher range.

Applicant not only failed to earn anything for depreciation and return but suffered a deficit before these two items of \$2,942. The gross revenue from gas operations in Eureka for the same period was \$99,711 and the investment in facilities is shown as in excess of \$600,000. The operation under natural gas, as disclosed by the record, does not show an improvement; in fact, at the end of the third year a deficit, on the same basis as above, is estimated at some \$6,000.

Analysis of the record seems to indicate rather clearly that this unsatisfactory showing in the past has been due to the relatively few customers taking service and the high investment per customer, accompanied by the relatively high cost to the consumers for the gas sold. Under natural gas operations the estimate provides for a material increase in customers served, which will lessen the capital burden per customer. However, the cost of gas to Applicant appears high at an initial rate of 13½ cents per M.c.f. in the field and under Applicant's proposal of maintaining the present gas plant as standby, the over-all cost of gas delivered to the distribution system offers but little advantage in cost over manufactured gas operations. In addition, the heretofore mentioned extraordinary initial expenses due to cut-over must be met.

Such a situation, from the earning viewpoint, can hardly be said to justify the new expenditures. However, it appears to me that more favorable results than shown may well be possible through cost control, the manner of handling fixed capital charges and, further, the future may hold forth greater load growth than now contemplated.

Under the circumstances, inasmuch as the matters prayed for appear clearly to be in the interest of Applicant's customers in the Humboldt Division, to which this application is limited, and Applicant is willing to undertake the risks involved, it is my opinion that the application should be granted.

At the public hearing on this matter, heretofore mentioned, no one appeared to oppose or protest the granting of the application and I recommend the following findings and form of Order.

O R D E R

A public hearing having been had in the above entitled application, the matter having been fully considered, and

It appearing, and being found as a fact that public convenience and necessity so require, Pacific Gas and Electric Company is hereby granted a certificate to exercise the rights and privileges granted it by the County of Humboldt under Ordinance No. 204, adopted November 16, 1940, to the extent that Pacific Gas and Electric Company may exercise said rights and privileges within such parts or portions of said County as are now served or in this Order authorized to be served by it, or as hereafter may be served by it through extensions of its existing system made in the ordinary course of business as contemplated by Section 50 (a) of the Public Utilities Act; provided, however, that this certificate shall be subject to the condition that the Railroad Commission may hereafter by appropriate

proceeding and order limit the authority herein granted as to any territory within said County not then being served by Pacific Gas and Electric Company. It is provided further that no claim of value for such franchise or the authority herein granted in excess of the actual cost thereof shall ever be made by grantee, its successors or assigns, before this Commission or before any court or other public body.

It appearing further, and being found as a fact that public convenience and necessity so require, Pacific Gas and Electric Company is hereby granted a certificate to construct and operate the gas transmission line project described in the above application; to supply natural gas service therefrom; and to substitute natural gas service for artificial gas service in the City of Eureka.

It is further found as a fact that Applicant has justified the proposed rates for natural gas set forth in Exhibit "C" to the application herein, as well as the proposed revision of page 1 of Rule and Regulation No. 2 set forth in Exhibit "B" to the application herein, and

IT IS ORDERED that Pacific Gas and Electric Company be and it is hereby authorized to file such rates and revised rule, cancelling the existing rates and rule, on not less than ten (10) days' notice, and may make such rates and revised rule effective on regular monthly meter readings taken on and after the 15th day following commencement of natural gas service.

This Order shall become effective immediately.

The foregoing Opinion and Order are hereby approved

and filed as the Opinion and Order of the Railroad Commission
of the State of California.

Dated, San Francisco, California, December 3,
1940.

Ray & Ricey
State Receiver
H. B. Bell
Justice J. C. Cresswell
Commissioners.