

ORIGINAL

Decision No. 42393

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 PACIFIC GAS AND ELECTRIC COMPANY for)
 an order of the Public Utilities Com-)
 mission of the State of California)
 issuing to applicant a certificate of)
 public convenience and necessity to)
 construct, operate and maintain the)
 gas project herein described, and to)
 exercise rights under the franchises)
 herein mentioned, and to make effective)
 tariff schedules applicable to pro-)
 posed gas service in the CITY OF KING,)
 State of California, and immediately)
 adjacent areas.)

Application No. 29721

R. W. DuVal, for applicant.

O P I N I O N

Pacific Gas and Electric Company, a California corporation, in this application seeks an order of this Commission issuing to applicant a certificate of public convenience and necessity to construct, operate and maintain a propane-air gas system within the City of King and contiguous territory; to exercise the rights and privileges under a franchise granted by the City of King and under franchises granted by the County of Monterey; and to file a schedule of rates for propane-air gas service in the King City area.

A public hearing was held in this matter at King City before Examiner Ross. No protests to granting applicant the authority herein sought were registered at the hearing.

At the present time, no utility gas service is available in King City, although applicant serves both electricity and water there. In anticipation of extending natural gas service to King City and environs, applicant secured a gas franchise from the city which was

adopted by its council as Ordinance No. 206 on September 4, 1946. This franchise was issued upon the terms and conditions set forth in the Franchise Act of 1937, and is of indeterminate term.

Applicant alleges that in order to serve natural gas in King City, it would be most practicable to extend an eight-inch pipe line a distance of 44 miles from the existing gas system in the vicinity of Salinas to King City by way of Chualar, Gonzales, Soledad, Greenfield and other smaller communities not now served gas. Although gas could be brought to King City directly from the company's so-called Bay Line (high pressure gas transmission line extending from Kettleman Hills to Milpitas, north of San Jose) and thereby effect the saving of a few miles of pipe line, there are presently and prospectively no built-up areas along such a line that could be served, comparable to those along the Salinas-King City route, and further, a direct connection to the Bay Line would necessitate traversing mountainous terrain with attendant greater difficulty of construction.

Shortage of steel and resulting unavailability of the required size pipe made it impossible for applicant to proceed with construction of the Salinas-King City line immediately upon being granted the King City franchise, and, accordingly, applicant first elected to postpone applying for this Commission's certificate until such time as pipe was available. After waiting about two years, applicant chose to apply to this Commission for the necessary authorization to provide propane-air gas service to King City for an interim period until eight-inch pipe should be reasonably available, whereupon natural gas service would be substituted therefor.

In support of applicant's contention that large-diameter pipe was not reasonably available at present, it was testified that the company in 1946 had approved the project to provide natural gas service to King City and other communities en route, but that the purchasing department had been unsuccessful in securing bids on the

large pipe required until very recently. The only bids forthcoming either carried prices materially higher than the current so-called "going" price, or provided for deliveries five years or more in the future at the price effective at the date of delivery.

According to a special census taken in May, 1945, the population of King City was 2,263 at that time. Although it was testified that the city had grown considerably since that census, no estimates of the present population were forthcoming. Applicant anticipates that this service area at the present population level will ultimately have about 760 gas customers, 600 of them residential and 160 commercial in nature, but that this degree of saturation will not be reached until the third year of service.

The facilities proposed by applicant to provide propane-air with a heating value of 1,325 Btu per cubic foot in King City comprise a 30,000-gallon propane storage tank to be located at a point accessible to either railroad or truck deliveries; steam-heated vaporizers and gas-air mixers with an aggregate capacity of 42,000 cubic feet per hour; a surge tank; a distribution system consisting of about 40,300 feet of two-inch, 8,800 feet of three-inch, 10,950 feet of four-inch and 650 feet of six-inch main; and the necessary district and individual meters and regulators. Applicant indicates it will perform all the construction work involved in this project itself, except for the propane plant which will be installed by a private contractor. In designing the distribution system, sufficient capacity was provided not only for distribution of propane-air gas initially, but as well for natural gas ultimately, and it was testified in this connection that sizing of the lines to permit satisfactory distribution of the propane-air mixture of 1,325 Btu per cubic foot would assure ample capacity under natural gas operation. The selection of 1,325 Btu as the heating value for the proposed King City propane-air service was dictated by its interchangeability with natural gas,

which will obviate most, if not all, adjustment of appliances at the time of changeover to natural gas.

It was estimated that the total capital outlay for the project after the second year of operation would be \$209,310, made up of \$44,230 for the propane-air plant to be installed under contract; \$2,220 for station meter and piping; \$1,990 for fence and roads; \$94,270 for street mains; and \$66,600 for meters, regulators and services. After including an allocation of the Coast Valleys Division common utility plant, a capital base of \$224,770 was obtained for the third year of operation.

It was brought out that certain economies would accrue to the operation of a gas system in King City by virtue of the fact that applicant already serves electricity and water there and maintains a district office in the city as well as certain service facilities and personnel totaling 19 employees. It was indicated that the addition of a gas service man to the existing organization would be the only increase in personnel necessary to operate the proposed gas system.

The rate proposed for King City, and for which authorization is requested herein, provides for serving a mixture of propane and air with a heating value of 1,325 Btu per cubic foot. The rate is designated Schedule G-59 and provides for escalation from the base rates to effective rates dependent upon the price of propane delivered to applicant's storage facilities. The base rates proposed are predicated upon a price of 8.35 cents per gallon of propane delivered, with a heating value of 91,900 Btu per gallon, which price is the estimated currently effective price under applicant's contract with Tide Water Associated Oil Company, dated August 31, 1948. This price is made up of 6.8 cents cost of propane at the oil company's North Belridge plant in the San Joaquin Valley, and 1.55 cents cost of transportation from that point to King City. The commodity cost is

not fixed but rather is the price as "posted" from time to time by the oil company. The ratio of escalation (applicable to all blocks beyond the minimum) is 1.0 cents per 100 cubic feet of gas for each 0.5 cents change in the price of propane from 8.35 cents per gallon, upward or downward without limit, such change in gas rates to be made to the nearest 0.5 cents. The base, and presently effective rates proposed are as follows:

		<u>Per Month</u>
First	200 cu. ft. or less per meter	\$1.10
Next	300 cu. ft. per meter	.44 per 100 cu.ft.
Next	700 cu. ft. per meter	.40 per 100 cu.ft.
All over	1,700 cu. ft. per meter	.30 per 100 cu.ft.

The rate requested for the proposed 1,325 Btu propane-air service in King City stems from the rate on file for the existing 925 Btu propane-air service territory of the company in Grass Valley, Redding, Red Bluff and vicinity, Schedule G-58, with some modifications. Essentially, the King City rate was derived from existing Schedule G-58 by escalating the latter to the level it will reach automatically after the termination on January 1, 1949 of the present contract for purchase of propane (after which the above-mentioned August 31, 1948 contract with Tide Water Associated Oil Company will apply), and then increasing the resulting escalated rate by the ratio of the proposed King City heating value to that of Schedule G-58, or 1,325 to 925. In a similar manner, the size of the blocks of the proposed King City rate were derived by shortening the blocks in Schedule G-58 through applying the inverse of this same ratio and then rounding to the nearest hundred cubic feet, which would have the effect of making the size of the blocks in terms of heating units essentially equal to those in Schedule G-58. The modifications, other than heating value conversions, consisted of increasing the minimum charge from \$0.90 to \$1.10 per month, which was compensated for by decreasing the block following the minimum from 49 cents to 44 cents per hundred cubic feet. The result of these modifications, with relation to a direct heating

value conversion from Schedule G-58 would be to increase billings for customers using up to a total of 600 cubic feet, following which higher usages would receive smaller bills than under a direct conversion of Schedule G-58 up to a maximum differential of 20 cents per bill for usages of 1,000 cubic feet and over.

Applicant presented estimates of revenues, sales, customers, and expenses in detail which may be summarized as follows:

	Estimated		
	Year of Operation		
	First	Second	Third
Revenues	\$ 43,000	\$ 53,400	\$ 64,600
Sales - M cubic feet	10,000	12,580	15,490
Customers - Domestic and Commercial	610	685	760
Expenses			
Cost of Propane	14,150	17,800	21,900
Other Production Expenses	8,900	8,900	8,900
Subtotal Production	23,050	26,700	30,800
Distribution Expenses	10,200	10,300	11,400
Administrative & General, Taxes,*			
Insurance, Pensions and Uncollectibles	9,110	9,300	9,690
Depreciation Expenses#	2,670	2,820	2,980
Total Above Expenses	45,030	49,120	54,870
Net for Return, Income Taxes and Depreciation on Propane Plant	(2,030)	4,280	9,730
Capital ø	210,700	217,330	224,770
Ratio of Net to Capital	(1.0)%	2.0%	4.3%

(Red Figure)

*Taxes exclusive of income taxes which are dependent upon company-wide net income.

#Depreciation annuity on 5% sinking fund method, not including propane plant, which was excluded due to probable short time until advent of natural gas would make plant obsolete.

øCapital increase reflects increase in number of service connections. Figures include prorata of Coast Valleys Division common utility plant.

The revenue estimates were predicated upon gas use saturation as experienced in applicant's other propane-air service areas. The volumes of propane and the corresponding costs were derived from the estimates of gas to be sold, based upon the assumption that 15% of the purchased propane would represent use for vaporization purposes and

unavoidable system losses. Depreciation expenses were predicated upon lives used elsewhere in the system, exclusive of the propane plant as indicated in the footnote to the tabulation.

With respect to the disposition of the propane plant, a witness for applicant testified that upon the assumption that natural gas service would commence before 1954, 85% of the contract amount of \$44,230 for the plant could be salvaged, whereupon the facilities could be put to use profitably elsewhere on the system. On the basis of five years of use and 85% net salvage, the annual 5% sinking fund depreciation annuity, not heretofore included, would be \$1,200. Deducting this amount from the previously noted net profit of \$9,730 in the third year would leave \$8,530 net for return and income taxes, or a ratio of net to capital of 3.80%.

Upon questioning as to competition that applicant might have to meet in its proposed propane-air service, information was supplied as to the current prices in King City of bottled butane purchased in various quantity lots, and a computation was made of the probable over-all cost of such bottled gas service, including estimated fixed charges or bottle rentals and servicing charges. The results of this computation showed the bottled gas to cost less than service under applicant's proposed propane-air schedule, but the costs were close enough to be considered fairly competitive, and applicant's witness emphasized the advantages of utility gas in terms of service and convenience.

Applicant indicates it intends to apply its filed Rule and Regulation No. 15 covering gas main extensions for any extensions beyond the lines proposed to be laid under the project for which authorization is sought hereunder, which lines were set forth in map form as an exhibit in this proceeding.

Applicant intends to serve certain unincorporated areas adjacent to King City and, accordingly, asks that authorization be

granted to exercise the franchises it holds covering the County of Monterey, to the extent necessary herein. Applicant has two franchises for gas operations in the County of Monterey, the first designated Ordinance No. 371, adopted May 6, 1929, and of 50-year duration; and the second designated Ordinance No. 622, adopted December 1, 1947, and of indeterminate term. This Commission granted applicant certificates of public convenience and necessity for the former by Decision No. 21508 (Application No. 15697) and for the latter by Decision No. 42309 (Application No. 29690), which provided, among other things, that the certificate granted applied only to, "... extensions made in the ordinary course of business ...," and, accordingly, would not cover the unincorporated area involved in the King City project.

Applicant has incurred costs of \$40.16 in obtaining the King City franchise and has stipulated that it, its successors or assigns will never claim before this Commission or any court or public body any value for the franchise in excess of the actual cost thereof.

It is concluded that the requested certificate under Section 50(a) of the Public Utilities Act to construct the proposed propane-air gas project described herein should be granted. The evidence of record supports the building of this system at this time for the service of propane-air, with the understanding that when pipe is reasonably available, natural gas service will be substituted therefor. The certificate of public convenience and necessity to be issued under Section 50(a) of the Public Utilities Act herein is subject to the following provisions of law:

That the Commission shall have no power to authorize the capitalization of this certificate of public convenience and necessity or the right to own, operate or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

It is likewise concluded that the requested certificate to exercise the franchise right conferred by the City of King in its Ordinance No. 206 should be granted under Section 50(b) of the Public Utilities Act. Further, it is concluded that under Section 50(b) of the Public Utilities Act authorization should be granted to exercise the rights granted by Monterey County franchises designated as Ordinances Nos. 371 and 622 to the extent necessary to extend the so-called King City system into surrounding unincorporated territory in the County of Monterey in the ordinary course of business, subject to appropriate restrictions concerning the territory now served by Coast Counties Gas and Electric Company, as more fully set forth in this Commission's Decision No. 42309 previously referred to. The authority to be granted under Section 50(b) hereunder is subject to the following provisions of law, (a) and (b) relating to the city franchise and (a) to the county franchises:

- (a) That the Commission shall have no power to authorize the capitalization of the franchise involved herein or this certificate of public convenience and necessity or the right to own, operate or enjoy such franchise or certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State or to a political subdivision thereof as the consideration for the grant of such franchise, certificate of public convenience and necessity or right.
- (b) That the franchise involved herein shall never be given any value before any court or other public authority in any proceeding of any character in excess of the cost to the grantee of the necessary publication and any other sum paid by it to the municipality therefor at the time of the acquisition thereof.

The rates requested by applicant, designated Schedule G-59, are concluded to be reasonable and proper rates to be charged for the propane-air service proposed to be rendered, and although, according to the record, they will not yield what might be considered a full return during the developmental years covered by testimony, no unreasonable burden will be placed upon the remainder of the system. Likewise, the escalator clause proposed is concluded to be necessary, reasonable, and proper.

O R D E R

The above-entitled application having been considered, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that public convenience and necessity will require the construction and operation of the propane-air gas project described in the foregoing opinion and will further require the exercise of the rights granted by the King City and Monterey County franchises as set forth in the foregoing opinion, therefore,

IT IS HEREBY ORDERED that Pacific Gas and Electric Company be and it is granted the following certificates of public convenience and necessity:

- (a) Under Section 50(a) of the Public Utilities Act, to construct, operate and maintain the propane-air gas project described in the foregoing opinion.
- (b) Under Section 50(b) of the Public Utilities Act, to exercise the rights and privileges under the franchise conferred by Ordinance No. 206 of the City of King, adopted September 4, 1946.
- (c) Under Section 50(b) of the Public Utilities Act, to exercise the rights and privileges under the franchises conferred by Ordinances Nos. 371 and 622 of the Board of Supervisors of the County of Monterey, adopted May 6, 1929 and December 1, 1947, respectively, to the extent necessary to extend the so-called King City system into surrounding unincorporated territory in the County of Monterey in the ordinary course of business, as contemplated in Section 50(a) of the Public Utilities Act, subject to appropriate restrictions concerning the territory now served by Coast Counties Gas and Electric Company, as more fully set forth in this Commission's Decision No. 42309 (Application No. 29690).

The above certificates are granted subject to the following conditions:

1. That the Commission may hereafter, by appropriate proceeding and order, limit the authority herein granted to applicant as to any territory within such certificated areas not then being served by it.
2. That applicant shall within thirty (30) days thereafter notify this Commission in writing of the completion of the

Schedule G-59

GENERAL SERVICE

PROPANE GAS

APPLICABILITY

Applicable to domestic and general service of propane-air gas for cooking, water heating, space heating and other domestic and commercial uses.

TERRITORY

Within the incorporated city limits of King City and contiguous unincorporated areas in the Coast Valleys Division.

RATES

		<u>Per Meter Per Month</u>	
		<u>Base Rates</u>	<u>Effective Rates</u>
First	200 cu. ft. or less	\$1.10	\$1.10
Next	800 cu. ft., per 100 cu. ft.44	.44
Next	700 cu. ft., per 100 cu. ft.40	.40
All over 1,700	cu. ft., per 100 cu. ft.30	.30

These rates are predicated upon a heating value of 1325 Btu per cubic foot, and the effective rates are based on a delivered cost of propane of 8.35 cents per gallon.

SPECIAL CONDITIONS

For gas used in excess of 200 cubic feet per month, the rates in effect at any time vary with the average cost of propane delivered to all plants generating gas served under this schedule, and shall be determined from the above base rates by adding or deducting, respectively, 1.0 cents for each 0.50 cents that such cost of propane is above or below 8.35 cents per gallon, change in rate to be the nearest 0.5 cents.

When a change in the price of propane occurs, the Company shall submit to the Public Utilities Commission of the State of California, within a period of fifteen (15) days, an Advice Letter and appropriate tariff schedules setting forth the new effective rates and accompanied by an affidavit of such change in the price of propane. The new rate shall be effective on all regular meter readings taken on and after the thirtieth (30) day following such change in the price of propane.

system for which the certificate under Section 50(a) of the Public Utilities Act is granted herein.

IT IS FURTHER FOUND AS A FACT that the schedule of rates for propane-air service as requested by applicant herein are just and reasonable, therefore,

IT IS HEREBY FURTHER ORDERED that Pacific Gas and Electric Company be and it is authorized to file in quadruplicate, after the effective date of this order and in accordance with the requirements of General Order No. 96, the schedule of rates shown in Exhibit A attached hereto for propane-air gas service applicable to the King City area, to become effective on regular monthly meter readings taken after the commencement of propane-air service, and, under the same conditions, to refile its Rule and Regulation No. 2, Description of Service, amended to include reference to the propane-air service to be rendered in King City.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco, California, this 29th day of December 1948.

L. B. Underwood
Justice F. Cramer
Samuel Pottel

Commissioners,