

ORIGINAL

Decision No. 45789

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of
 PACIFIC GAS AND ELECTRIC COMPANY for
 a certificate of public convenience and
 necessity to construct, operate and
 maintain the natural gas project herein
 described; for certificates under
 Section 50 of the Public Utilities Act
 re the exercise of gas franchise rights;
 for authorization to supply natural gas
 service in the Cities and/or Towns of
 Chualar, Gonzales, Soledad, Greenfield
 and the City of King and adjacent areas,
 and to file and make effective gas
 tariff schedules applicable to service
 in said areas.

Application No. 32297

(Natural gas project - Salinas to City
 of King)

Ralph W. DuVal and Frederick T. Searls, for
 applicant; Leo W. Bardin and Ree C. Grim, for
 King City Chamber of Commerce, interested
 party; Mayor Harold Henry, by W. L. Cavalli,
 for City of King, interested party;
Harey F. Casey, Editor of the Rustler-Herald,
 interested party; Lloyd E. Cooper, for the
 Commission's staff.

O P I N I O N

Pacific Gas and Electric Company, a California corporation
 and applicant in the proceeding, by the above-entitled application
 filed April 12, 1951, requests a certificate of public convenience
 and necessity authorizing the extension of its natural gas system to
 serve the town of Chualar and cities of Gonzales, Soledad, Greenfield,
 and King and adjacent territory in Monterey County, California.
 Applicant also requests certificates under Section 50 of the
 Public Utilities Act to authorize it to exercise the rights
 contained in franchises issued by the above enumerated

cities and county. Authority also is sought to furnish natural gas service in the communities and area above listed and to file and make effective appropriate rate schedules for such natural gas service.

A public hearing on this application was held before Examiner Edwards on May 3, 1951, at King City, California. At this hearing applicant submitted evidence and facts to supplement the data contained in its application with regard to the need for the proposed project, the economic feasibility of the project, and the rate levels necessary to make the project self-supporting. Civic officials and certain business men of the City of King, including the City Clerk, the president and a director of the Chamber of Commerce, and the editor of the Rustler-Herald testified as to the need for the proposed natural gas service.

The proposed transmission main will consist of an 8 5/8-inch diameter steel high pressure pipe line, approximately 43.8 miles in length. It will connect with the applicant's existing 12-inch high pressure transmission main south of the Buena Vista Meter Station which in turn is located approximately 2 miles south of Salinas in Monterey County, and will be laid in a generally southerly and easterly direction terminating at King City, California. A map of the proposed extension, marked Exhibit "B", is attached to the application.

Applicant proposes to install gas distribution systems, consisting of mains, meters, regulators and services, within the cities of Gonzales, Soledad, and Greenfield, and the town of Chualar. A gas distribution system is already installed in King City, being supplied by a propane-air plant, which can be used for the distribution of natural gas with little or no adjustment of customer's appliances. Applicant estimates that these systems will necessitate

the laying of approximately 173,000 feet of distribution main consisting of 2-, 3-, and 4-inch sizes of pipes. Maps of the proposed distribution systems were filed at the hearings as Exhibits Nos. 1A, B, C, and D.

The estimated cost of the proposed transmission line and distribution systems, exclusive of the King City system, may be summarized as follows:

Land and Land Rights	\$ 47,000
Structures and Improvements	1,000
Main 8-inch line, 231,100 feet	570,800
Valves and Blow-offs	22,500
Bridge Crossings	20,000
Distribution Lines, 123,155 feet of 2-, 3-, and 4-inch	260,000
Distribution Measuring and Metering Equipment	30,000
Distribution Services	169,000
Distribution Meters	155,600
Distribution Regulators	49,500
Overhead Construction Costs	162,750
Total	<u>1,488,150</u>

Applicant intends to finance this extension from funds in its treasury or from such funds as it may obtain in the future by means of the issue of stock, bonds, notes, or other evidences of indebtedness. It is believe that applicant has the financial means to complete the installation of the extension as planned and the means to operate the system during the developmental period while the rate of return may be below applicant's cost of money.

The general service natural gas rates proposed by applicant for service from the new extension are approximately 50% above the existing rates to cities, communities, and areas of similar characteristics on its main interconnected natural gas system. An interruptible natural gas service rate which is also approximately 50% above the existing main system interruptible rate is proposed. No firm industrial nor gas engine service rates are proposed as applicant claims there is no need for this service at the present

time. If and when a need for these two classes of service arises, applicant plans to file schedules with rates at such levels as appear appropriate at that time.

The rate levels proposed by applicant in its Exhibit No. 5 may be summarized as follows:

A - General Natural Gas Service

		<u>Per Customer Per Month</u>	
		<u>Schedule</u>	<u>Schedule</u>
		<u>G-5.1</u>	<u>G-6.1</u>
First	200 cu.ft. or less	\$1.47	\$1.87
Next	2,300 cu.ft., per 100 cu.ft.	8.79¢	9.45¢
Next	17,500 cu.ft., per 100 cu.ft.	7.85¢	8.28¢
Next	80,000 cu.ft., per 100 cu.ft.	6.81¢	6.99¢
Next	4,900,000 cu.ft., per 100 cu.ft.	6.73¢	6.91¢
Over	5,000,000 cu.ft., per 100 cu.ft.	6.07¢	6.07¢

B - Interruptible Natural Gas Service

		<u>Schedule</u>
		<u>G-50.1</u>
First	1,000 Mcf, per Mcf	54.9¢
Next	2,000 Mcf, per Mcf	49.6¢
Next	3,000 Mcf, per Mcf	45.6¢
Next	4,000 Mcf, per Mcf	42.9¢
Over	10,000 Mcf, per Mcf	41.6¢

Applicant proposes that Schedule G-5.1 apply within the cities of Gonzales, Greenfield, King, and Soledad, that Schedule G-6.1 apply to all customers served by the extension located outside of incorporated city limits, and that Schedule G-50.1 apply to all applicable customers in the area. All rate levels set forth are predicated on gas with a heating value of 1,100 Btu per cubic foot and for the proposed Interruptible Service Schedule the effective rates reflect a posted price for fuel oil of \$1.80 per barrel. In spite of the fact that the proposed rates are above the average for the system, they are still attractive when compared with the cost of propane gas or electricity for the uses of cooking, water heating, and space heating. Applicant claims that for the average domestic customer the proposed rates for natural gas service are approximately 53% below the cost of propane gas in the King City area and approximately 54% below the cost of electricity for these uses.

Exhibit No. 4, containing applicant's estimate of number of customers, sales, revenues, expenses, capital and net for return during each of the first three years of service for the proposed extension, is summarized below:

	Year of Operation		
	First	Second	Third
Customers - Number	2,019	2,269	2,522
Sales - Mcf	276,277	372,222	472,267
<u>Revenues</u>			
Domestic	\$ 103,290	\$ 127,167	\$ 152,145
Commercial	73,984	92,548	112,071
Soledad Prison: Firm	11,080	16,588	22,097
Soledad Prison: Interruptible	36,100	52,196	67,842
	<u>224,454</u>	<u>288,499</u>	<u>354,155</u>
<u>Expenses</u>			
Purchased Gas	75,448	101,690	129,021
Operation and Maintenance	12,619	14,181	15,762
Customer Accounting and Sales Promotion	10,600	11,912	13,240
Administration and General	4,724	5,118	5,518
Depreciation Annuity (5% S.F.)	19,110	19,288	19,468
Property Taxes	25,477	25,477	25,477
State Franchise Tax	1,175	2,502	3,848
Federal Income Tax	11,907	26,877	42,058
Total Expenses	<u>161,060</u>	<u>207,045</u>	<u>254,392</u>
Net for Return	63,394	81,454	99,763
Rate Base	1,638,634	1,651,472	1,664,442
Rate of Return	3.9%	4.9%	6.0%

It will be noted that applicant does not expect a 6% return on its capital until the third year of operation. It will also be noted that applicant's rate base is greater by \$176,292 than its estimated cost of the extension in the third year. This latter amount is comprised of: \$136,851 in the present King City system, \$15,441 allocation of common utility plant and \$24,000 allowance for working cash capital.

Some \$44,000 of the capital in King City is represented by the propane-air gas production plant. Applicant plans to keep this plant in service as a standby unit in case of line failure or as a means of helping to meet peak hour loads.

Under cross-examination by the staff representative, applicant's witness admitted that the utility has altered its former plans, as set forth in Application No. 29721, to remove this plant as soon as natural gas becomes available. The need for this plant during the first few years of operation of this extension is questionable because the line will hold approximately eight hours use of gas by means of line pack if the supply is shut off near Salinas. The probability of failure of the line during the first few years of operation is at a minimum.

The major item of expense is the cost of purchased gas. Applicant estimated that the average field cost of gas from all sources will be 20.1 cents per Mcf in 1952 and that the delivered cost of gas to the distribution system would be approximately 26.5 cents per Mcf. Applicant claims that since this estimate was prepared, some further increase in the cost of gas in the field is indicated, so this figure may be on the low side.

Population in the communities to be served, based on April, 1950 preliminary census figures is: Gonzales 1,818, Soledad 2,396, Greenfield 1,308, and City of King 2,338, or a total of 7,860 persons. By the middle of the third year of operation, applicant expects to be rendering service to 2,000 domestic customers, 521 commercial customers, and one large interruptible customer, the Soledad State Prison. It based its sales per customer on usage characteristics of customers located in the nearby Alisal District, using ratios of 80% the first year, 90% the second year, and 100% the third year. Operating expenses were based on experienced trends of gas operations in the Coast Valleys Division of the Pacific Gas and Electric Company. Depreciation expense is computed on the 5% sinking fund method.

The mains and pipes will be laid in part on private rights of way and in part on the public highways, streets, roads, or places of the County of Monterey and the cities of Gonzales, Soledad, Greenfield, and King City. Applicant claims that Ordinance No. 622 of Monterey County grants it the right to use the public highways, streets, roads, and places of said county. Heretofore, under Decisions No. 42309 and No. 42398 of Applications No. 29690 and No. 29721, dated December 14, 1948, and December 29, 1948, respectively, applicant was granted certificates of public convenience and necessity to exercise the privileges in certain parts of Monterey County granted under the franchise conferred by Ordinance No. 622.

Franchises have been obtained from the cities of Gonzales, Greenfield, and Soledad covering gas service. The ordinance numbers, effective dates, cost to obtain franchises, term of duration, and annual payment rates are:

	<u>Ordinance Number</u>	<u>Date Effective</u>	<u>Cost</u>	<u>Duration Term</u>	<u>Annual Payment Rates</u>
Gonzales	35	10-5-50	\$33.72	Indeterminate	2%
Greenfield	33	10-5-50	39.72	Indeterminate	2
Soledad	129*	1-11-51	48.32	Indeterminate	2

* To correct typographical errors, Ordinance No. 129 was amended by Ordinances Nos. 130 and 132.

Applicant is requesting certificates of public convenience and necessity to exercise the rights granted by these new franchises. Such certificates will be granted by the order herein.

Applicant also is requesting certificates to exercise the rights granted by Ordinance No. 622 of the County of Monterey in this portion of Monterey County, and the rights heretofore granted by the City of King City under Ordinance No. 206 in so far as the serving of natural gas is concerned. Ordinance No. 206 provided for service

of natural or artificial gas or a mixture of natural and artificial gas. Such certificates also will be granted by the order herein. Ordinance No. 622, adopted December 1, 1947, is of indeterminate term, as is Ordinance No. 206, adopted September 4, 1946.

At the hearing on the instant application no opposition to the granting of the certificates requested by applicant was manifested. Pacific Gas and Electric Company and its predecessors for many years have served gas within the County of Monterey, although its existing distribution facilities do not extend to all portions of the county. From the testimony, it appears that the only person, firm, or public or private corporation other than the Pacific Gas and Electric Company now engaged in the business of furnishing, distributing and selling natural gas in Monterey County is the Coast Counties Gas and Electric Company, which distributes gas in the northern part of the county. The territory now served by Coast Counties Gas and Electric Company is more fully set forth in the Commission's Decision No. 42309, Application No. 29690, dated December 14, 1948. At no point in the area here in question do the service areas of the two companies overlap.

On reviewing the record in this proceeding, we are of the opinion and find that applicant should be granted permission to construct the proposed extension. Applicant's showing definitely indicates that returns from the extension will be below normal during the developmental period. We believe that the capital invested in the propane gas production plant should be excluded from the rate base during the developmental period and possibly for some time thereafter, but this item is so small compared to the total capital that its exclusion would not bring the rate of return up to a 6% level during the first year or two and thus would not warrant rate levels during this initial development period lower than proposed by applicant.

In order that we can keep in close touch with the economics of this situation, we will require that applicant keep separate records of revenues, expenses, and capital on this extension and submit annual reports each calendar year until development indicates that rates may be reduced to near system levels. During the developmental period, the customers served by this extension should be classified into a separate rate area, which would assist in the segregation of revenues, expenses and capital items. Also this segregation will enable the Commission to make appropriate adjustments in any system-wide rate proceedings for the low revenues and return during the developmental period to the end that the other customers of the utility may not be penalized.

The certificate of public convenience and necessity issued herein under Section 50(a) of the Public Utilities Act, with respect to applicant's request to construct the project, is subject to the following provision 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.

The certificates of public convenience and necessity issued herein under Section 50(b) of the Public Utilities Act, with regard to the exercise of gas franchise rights are subject to the following provisions of law, (a) and (b) applying to the City franchise and (a) to the County franchise:

- (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.

O R D E R

The above-entitled application having been filed, 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 the present and future public convenience and necessity require or will require the construction, operation, and maintenance of the natural gas project herein described, and, in connection therewith, the exercise by applicant of the right, privilege, and franchise granted to applicant by previously enumerated ordinances of the cities of Gonzales, Soledad, Greenfield, King and the County of Monterey,

IT IS FURTHER FOUND AS A FACT that the proposed schedule of rates for natural gas services as set forth in applicant's Exhibit No. 5 are just and reasonable, therefore,

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

- (a) Under Section 50(a) of the Public Utilities Act, to construct, operate, and maintain the natural gas project described in the foregoing opinion.
- (b) Under Section 50(b) of the Public Utilities Act, to exercise the rights, privileges, and franchises granted to it by the City of Gonzales by Ordinance No. 35, adopted September 5, 1950; by the City of Greenfield by Ordinance No. 33, adopted September 5, 1950; by the City of Soledad by Ordinance No. 129 (as amended by Ordinances Nos. 130 and 132) adopted December 12, 1950; and by the City of King by Ordinance No. 206, adopted September 4, 1946.

- (c) Under Section 50(b) of the Public Utilities Act to exercise the right, privilege, and franchise granted to it by the County of Monterey by Ordinance No. 622 adopted December 1, 1947, to the extent necessary to extend natural gas service from City of Salinas to City of King 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, December 14, 1948; and subject to the condition that the Commission may hereafter by appropriate proceeding and order limit the authority herein granted to applicant as to any territory within said county not then being served by it.

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 at levels set forth in applicant's Exhibit No. 5, with such minor correction in wording and dates as to make the schedules comply with the requirements of this order, to become effective on regular monthly meter readings taken after the commencement of natural gas service, and, to refile such of its rules and regulations as are necessary to make its tariff schedules consistent with the changes resulting from this order.

IT IS FURTHER ORDERED that applicant is authorized to supply natural gas service to customers within the area of the project and to charge the filed rates for such service; and, furthermore, that applicant shall establish a separate rate area for all service rendered from this project and so maintain its records that the revenues, as well as capital costs and operating expenses of the project may be readily determined at any time; and, thereafter, applicant shall file with the Commission a statement of such revenues, costs, and expenses annually during the development period of this project.

IT IS FURTHER ORDERED that within thirty (30) days after the completion of this project for which the certificate under Section 50(a) of the Public Utilities Act is granted herein, applicant shall notify this Commission of such completion date in writing.

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

Dated at Los Angeles, California, this 5th day of June, 1951.

R. Z. [Signature]
James F. [Signature]
John E. [Signature]

Commissioners.