

Decision No. 48415

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
CALIFORNIA-PACIFIC UTILITIES COMPANY,) Application No. 32496
a corporation,) (First Supplemental)
for a Certificate to Furnish Natural)
Gas Service to the City of Needles,)
California, and Adjacent Territory,)
and to Adopt and Make Effective Rates,)
Rules and Regulations Applicable)
Thereof.)

Orrick, Dalquist, Neff & Herrington
and Warren A. Palmer, for applicant,
L. S. Grady, Mayor, and Jack Clevenger,
City Attorney, for City of Needles,
Lloyd E. Cooper, for staff of
Public Utilities Commission.

O P I N I O N

California-Pacific Utilities Company, in this First Supplemental Application, requests an order authorizing it to place in effect proposed rates for natural gas service, to amend its rules and regulations to include natural gas service and to add proposed Rule and Regulation No. 30 limiting firm rates to future natural gas load.

A public hearing on this application was held in Needles on October 18 by Commissioner Huls and Examiner Crenshaw.

Under date of September 25, 1951, this Commission by Decision No. 46219 in Application No. 32496, granted to California-Pacific Utilities Company a certificate for the purpose of constructing, operating and maintaining a gas transmission system for the supplying of natural gas service to the City of Needles and adjacent territory. The matter of rates for natural

gas service had been withdrawn by applicant to be submitted at a later date by supplemental application.

In this First Supplemental Application certain proposed rates for natural gas service, with amended rules and regulations, together with estimates for natural gas operations, were presented at the hearing by applicant.

Estimates of gross revenues, operating expenses, rate base and rate of return were presented for the first and second years of natural gas operations by applicant in Exhibits No. 16 and 17 using the undepreciated and modified sinking fund bases, respectively. The estimated rates of return are shown by the following tabulation:

<u>Item</u>	<u>Estimated</u>	
	<u>1st Year of Operations</u>	<u>2nd Year of Operations</u>
Gross Revenue (Exhibit No. 25)	\$ 88,800	\$ 92,400
Operating Expenses, excluding Depreciation and Taxes (Exhibit No. 25)	46,100	48,280
Depreciation (Exhibit No. 25)	6,463	6,892
Taxes (Exhibit No. 25)	19,968	20,573
Total Depreciation & Taxes	<u>26,431</u>	<u>27,465</u>
Total Operating Expenses (Exhibit No. 25)	72,531	75,745
Net Operating Revenue (Exhibit No. 16)	16,269	16,655
Rate Base (Undepreciated) (Exhibit No. 16)	290,459	316,116
Rate of Return (Exhibit No. 16)	5.60%	5.27%
Net Operating Revenue (Exhibit No. 17)	15,913	16,258
Rate Base (Depreciated) (Exhibit No. 17)	286,143	307,798
Rate of Return (Exhibit No. 17)	5.56%	5.28%

Based upon applicant's forecast of revenues and expenses under natural gas operations, the earnings set forth above appear reasonable. The distribution expenses have increased somewhat, due to a leakage program inaugurated by applicant in the year 1949 to reduce the relatively high amount of unaccounted for gas. We believe that this leakage survey program should be continued within economic limitations. The expense and savings

accruing from this program, as well as other expenses, including those for the conversion to natural gas, will be subject to future review by this Commission.

A question was raised at the hearing as to the propriety of applicant's using 52% for Federal income taxes instead of 47% which was in effect at the time of the hearing. Subsequent to the hearing the 52% rate has been enacted into law and that rate will be employed herein.

The rate bases used by applicant in its estimates include approximately \$39,470 for liquefied petroleum gas production equipment, a portion of which is to be retained temporarily, pending stabilization of natural gas operations.

In applicant's Exhibit No. 10, it is shown that this amount includes lands and structures, in addition to liquefied petroleum gas production equipment, which would be used for natural gas operations. This leaves approximately \$35,600 for storage tanks, vaporizing and auxiliary equipment. Applicant stated that its present plan is to use this equipment as standby for a year or two, then move the vaporizing and auxiliary equipment to its other properties. The tanks, which represent about \$18,000 for natural gas storage, would be retained in place. Liquefied petroleum gas equipment, amounting to about \$17,000, also is to be retained as standby. This procedure appears to be consistent with good operating practice.

A comparison of the over-all effect of the proposed rates submitted by applicant for natural gas service with the present rates for liquefied petroleum gas, based upon a study for the twelve months ending May 31, 1951, showed a reduction in revenues of approximately 16.7%.

According to estimates submitted by applicant, the proposed rates for natural gas service will result in reductions ranging from approximately \$1.49 to \$5.47 per month in the gas bills for its customers when compared with the rates for liquefied petroleum gas now being supplied.

It was brought out at the hearing that the proposed rates appeared to be out of line in the initial use under the minimum charge when compared to the average rate proposed for the subsequent blocking of use. Testimony by applicant's witness indicated that it was its desire to have a rate for natural gas service which would be of a promotional nature and would lend itself to a greater use of natural gas service by its customers. Therefore, it appears necessary that the proposed rates submitted by applicant be modified to more nearly equate the cost of service between the customers and at the same time encourage a greater use of natural gas per customer.

The following tabulation shows the base rates proposed by applicant and the base rates authorized in this decision:

Base Rates Proposed by Applicant

	<u>Per Meter Per Month</u>
First 800 cubic feet or less	\$ 2.00
Next 1,700 cubic feet; per 100 cubic feet	.22
Next 5,000 cubic feet; per 100 cubic feet	.18
Next 10,000 cubic feet; per 100 cubic feet	.15
Over 17,500 cubic feet, per 100 cubic feet	.12

Base Rates California Public Utilities Commission

	<u>Per Meter Per Month</u>
First 400 cubic feet or less	\$ 2.00
Next 2,100 cubic feet per 100 cubic feet	.19
Next 5,000 cubic feet per 100 cubic feet	.15
Next 10,000 cubic feet per 100 cubic feet	.13
Over 17,500 cubic feet per 100 cubic feet	.12

The effect of the preceding rates for various consumptions as compared with the present rates for corresponding uses are shown in the following tabulation:

: Monthly Use: : Cubic Feet:	: Monthly Billing			: Reduction from Present Rates :			
	: Present: : Rate	: Applicant's : Proposed Rate	: CPUC: : Rate	: Applicant: : CPUC	: Amount	: Per cent	: Applicant: : CPUC
400	\$2.00	\$ 2.00	\$2.00	\$ 0.00	\$0.00	0.0	0.0
800	3.57	2.00	2.76	1.57	.81	44.0	22.7
1,500	5.25	3.54	4.09	1.71	1.16	32.5	22.1
2,000	6.28	4.64	5.04	1.64	1.24	26.0	19.7
2,500	7.23	5.74	5.99	1.49	1.24	20.5	17.1
3,000	8.14	6.64	6.74	1.50	1.40	18.4	17.2
4,000	9.96	8.44	8.24	1.52	1.72	15.6	17.3
7,500	16.32	14.74	13.49	1.58	2.83	9.5	17.3
10,000	20.26	18.49	16.74	1.77	3.52	9.0	17.4
15,000	27.69	25.99	23.24	1.70	4.45	6.3	16.1
20,000	34.71	32.74	29.49	1.97	5.22	5.5	15.0
30,000	48.46	44.74	41.49	3.72	6.97	7.5	14.4
40,000	62.21	56.74	53.49	5.47	8.72	8.5	14.0

The rates authorized herein in Exhibit A, which reflect the above-mentioned changes are found to be reasonable and will produce substantially the same gross revenue as the rates proposed by applicant.

Applicant's present Rule and Regulation No. 2 governing character of service applies only to liquefied petroleum gas. With the advent of natural gas, some revisions must be made to cover this service.

Since both natural gas and liquefied petroleum gas will be served for a short period during the change-over to natural gas, it will be necessary that applicant have on file with this Commission rates, rules and regulations applying to both liquefied petroleum gas and natural gas. When the conversion from liquefied petroleum gas to natural gas has been completed, applicant may request the withdrawal of the rates and the portion of the rules and regulations pertaining to liquefied petroleum gas service, leaving only those applicable to natural gas service.

Rule and Regulation No. 2, relating to the character of service, has been modified as shown in Exhibit B attached to and made a part of this decision. It will be noted that this rule and regulation, as modified, contains a condition providing for the adjustment of rates to correspond with the variation of the heating value of the gas served. Appropriate records should be kept in applicant's local office.

The record shows that Rule and Regulation No. 30, which applicant proposes to incorporate in the rules and regulations on file with this Commission differed from the rule incorporated in the Pacific Gas and Electric Company's rate filed with the Federal Power Commission.

Under Section 7 of General Terms and Conditions of the Pacific Gas and Electric Company's F.P.C. Gas Tariff, Original Volume No. 1, it is provided that:

"Buyer shall render service with gas purchased from Seller to domestic and commercial customers only and shall not render service to any such customer whose use of gas exceeds 25,000 cubic feet per day of twenty-four hours, nor shall Buyer itself consume such gas in excess of said amount, unless it shall first have obtained Seller's approval to render such service or make such use, nor shall Buyer increase the volume of gas delivered to any such customer, or increase its use, without prior approval of Seller, provided, that Seller will give such approval as to domestic and commercial customers of Buyer who, in the judgment of Seller, cannot readily use a substitute fuel without undue hardship."

The Pacific Gas and Electric Company's rules and regulations on file with this Commission provide that service under any firm schedule where the use is estimated to exceed 25,000 cubic feet of gas per day may be refused by the company, subject to the approval of this Commission.

The rate making function of this Commission includes the approval of necessary rules and regulations. Rule and Regulation No. 30, as proposed by applicant in this proceeding, is similar to Rule and Regulation No. 19 - Limitation Upon Firm Natural Gas Service of the Pacific Gas and Electric Company presently on file with this Commission. Accordingly, applicant's proposed rule does not appear to be unreasonable and will be authorized in this order. It may be necessary, however, to make certain modifications to this rule as circumstances may warrant in the future.

Mayor L. S. Grady of the City of Needles, in a statement made at the hearing, questioned the treatment of certain items by applicant in its estimates and proposals.

The issues alluded to are as follows:

1. Income Tax should have been computed on a 47% rate instead of a 52% rate.
2. If the liquefied petroleum gas capital amounting to \$39,467.76 were deducted from the rate base, a lower rate for natural gas service would be obtained.
3. Lower rates for natural gas service would tend to increase use by the customers.
4. Unaccounted for gas would be reduced if a diligent leakage survey plan were adhered to.
5. Applicant's records of the heating value of the gas should be available for public inspection.
6. Public statement by applicant should be made of pay outs, such as conversion costs, when completed.

As heretofore noted, the federal income tax rate of 52% has now become law and no longer is an issue.

Since some of the liquefied petroleum gas facilities included in the \$39,467.76 will be retained for natural gas service, leaving only about \$17,000 in facilities to be used temporarily for standby, such amount if deducted from the rate base would have a

negligible, if any, effect on the rates. Naturally, lower rates in general tend to increase use. The rates as revised herein were designed with this purpose in mind.

Heretofore in this opinion it has been stated that the applicant should diligently continue the leakage program within reasonable economic limitations.

Since the rates are influenced by the heating value of the gas, applicant's records of the Btu content of the gas, in so far as they affect the rates, should be available upon request for public inspection.

As to the pay outs, such as conversion costs, as well as other costs, this Commission, through its engineers, checks the reasonableness of such charges for rate fixing purposes. Therefore, we believe that the additional cost of preparing a public statement of the particular costs would have no particular significance unless all the costs are considered. Since the annual reports submitted by applicant to this Commission contain all the costs and are open to public inspection, we believe this would meet Mayor Grady's request.

Applicant advises that it will be ready to supply natural gas service to the City of Needles by the middle of December, 1951. Therefore, in order to make available natural gas service to the customers in this city and adjacent territory and so that they may obtain the immediate reduction in rates occasioned by the conversion to natural gas, it has requested that the decision be made effective as soon as possible. It appears from the record that this request is reasonable and should be granted, and the decision will become effective five (5) days after the date hereof, and the rates, rules and regulations shall be made effective upon one (1) day's notice to the Commission and the public as specified and prescribed in the order following.

During the conversion to natural gas, applicant shall keep this Commission advised by a monthly progress report relating to the change-over in each locality on its system.

O R D E R

California-Pacific Utilities Company, having applied to this Commission for an order authorizing rates and charges for natural gas service, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission, after the effective date of this decision, in conformity with General Order No. 96, the schedule of rates set out in Exhibit A attached hereto and, after not less than one (1) day's notice to this Commission and to the public, to make said rates effective for natural gas service rendered on and after November 21, 1951.

IT IS HEREBY FURTHER ORDERED that applicant is authorized to file in quadruplicate with this Commission, after the effective date of this decision, in conformity with General Order No. 96, the modification of Rule and Regulation No. 2 as shown as Exhibit B, and the rule and regulation shown in Exhibit C attached hereto and, after not less than one (1) day's

notice to the Commission and the public, applicant is authorized to make said rules and regulations effective for service on and after November 21, 1951.

The effective date of this decision shall be five (5) days after the date hereof.

Dated at San Francisco, California, this 13th day of November 1951.

[Signature]
President.
Harold P. Hule
Lawrence P. Fetter
John L. Mitchell
Commissioners.

EXHIBIT A

Schedule 1-G

GENERAL NATURAL GAS SERVICE

APPLICABILITY

Available, upon application, to any residential or commercial customer for space heating, cooking or water heating.

TERRITORY

Applicable to the entire territory of the Needles Division now being served by the Company.

RATES

		<u>Per Meter Per Month</u>	
		<u>Base</u>	<u>Effective</u>
		<u>Rates</u>	<u>Rates</u>
First	400 cubic feet or less	\$2.00	\$2.00
Next	2,100 cu. ft., per 100 cu. ft.....	.19	.19
Next	5,000 cu. ft., per 100 cu. ft.....	.15	.15
Next	10,000 cu. ft., per 100 cu. ft.....	.13	.13
Over	17,500 cu. ft., per 100 cu. ft.....	.12	.12

Minimum Charge:

Per Meter Per Month	\$2.00	\$2.00
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The above effective rates are based on an average heat content of 1100 B.T.U. per cubic foot. The effective rates will be adjusted for variations in the average heat content in accordance with Rule 2-C.

SPECIAL CONDITION

Meter readings of gas consumed in public school buildings for heating and cooking purposes may be combined for making charges under this Schedule.

EXHIBIT B
Page 1 of 2

RULE AND REGULATION NO. 2

CHARACTER OF SERVICE

a. Kind and Heating Value

Gas supplied at Dunsmuir and Yreka will be propane-air gas having a nominal heating value of 1000 B.T.U. per cubic foot. Propane-air gas supplied at Needles will have a nominal heating value of 900 B.T.U.

Gas supplied at Needles will be natural gas having a heating value as set forth in Section (c) herein and in accordance with the rate schedules.

b. Pressure

The standard for low pressure service will be approximately six inches of water column.

Where gas is served at pressures above the standard low pressure through positive displacement meters, the metered volume shall be corrected to a standard pressure of 14.73 pounds per square inch absolute, and this shall be the volume to which the rates apply. In correcting the metered gas volume to the standard pressure, the barometric pressure assumed to exist at the meter for various elevation zones, shall be taken from the following table:

Standard Average Barometric Pressures
of Various Altitude Zones for Use with High
Pressure Gas Displacement Meters

Zone Number	Elevation Limits Between Which Standard Barometric Pressure is to be Used (Feet)		Standard Barometric Pressure (Lbs. per Sq. Inch)
1	200	199	14.73
2	200	599	14.53
3	600	999	14.32
4	1,000	1,399	14.12
5	1,400	1,799	13.92
6	1,800	2,199	13.72
7	2,200	2,599	13.53
8	2,600	2,999	13.33
9	3,000	3,399	13.14
10	3,400	3,799	12.96
11	3,800	4,199	12.77
12	4,200	4,599	12.59
13	4,600	4,999	12.41
14	5,000	5,399	12.23
15	5,400	5,799	12.06
16	5,800	6,199	11.89

Company may, at its discretion, correct for deviation from Boyle's Law.

EXHIBIT B
Page 2 of 2

RULE AND REGULATION NO. 2

CHARACTER OF SERVICE

(Continued)

c. Adjustment for Heating Value

The effective rates in these schedules providing for B.T.U. adjustment, according to the heating value of the natural gas served, shall be determined in accordance with the following rule:

The base rates set forth in the schedules for natural gas are predicated on an average monthly heating value of 1100 B.T.U. per cubic foot (determined as the average of daily heating value tests on a "dry" basis). A maximum variation in the monthly average of 35 B.T.U. above or below 1100 B.T.U. is contemplated. When the actual variation exceeds 35 B.T.U. for two consecutive calendar months, the effective rates will be changed by increasing or decreasing the rates to conform to a new average heating value, adjusted in steps of 50 B.T.U. from the base of 1100 B.T.U., which is the nearest the average of that experienced during the two months which occasioned the change. The effective rates will be determined by an adjustment in all base rates (except for the fixed and/or the minimum charge portion of the general service and space heating service rates) of 3 per cent for each 50 B.T.U. step, computed to the nearest 0.01¢ per 100 cubic feet or 0.1¢ per 1000 cubic feet (Mcf) and will become effective fifteen (15) days thereafter.

Changes in the rates resulting from variation in heating value will not be made more frequently than each two-month period, except, when definite changes in the source of gas occur, the appropriate rates will be made effective fifteen (15) days after the date of change-over.

EXHIBIT C

RULE AND REGULATION NO. 30LIMITATION UPON FIRM NATURAL GAS SERVICE

In order that this utility may be enabled to make the most effective and economic use of the natural gas available and to be available, each of the firm gas rate schedules and contracts of, and the rules and regulations governing the sale of natural gas by, this utility on file with the Public Utilities Commission of the State of California shall be deemed amended and is hereby declared amended or reformed to the extent that any such schedule, contract, rule or regulation is or may be inconsistent, or in conflict, with the following condition and regulation:

Service of gas under any firm schedule in any equipment (usage to be cumulative in such equipment and all equipment thereafter added at the same premises) estimated by the Company to use in excess of 25,000 cubic feet of gas per day of twenty-four hours, not served at the effective date hereof with gas under a firm schedule, may be refused by the Company with the approval of the Public Utilities Commission in those cases where the customer could, in the judgment of the Company, readily use a substitute fuel without undue hardship, or in those cases where the amount of such usage during periods of firm peak demand might, in the judgment of the Company, be such as to jeopardize firm service to domestic customers.