

ORIGINALDecision No. 51666

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 under Article 1 of Chapter 5)
 of the Public Utilities Code to con-)
 struct, operate and maintain the)
 natural gas project herein described)
 and to exercise all permits, easements,)
 and franchises which may be used or use-)
 ful in connection therewith; and for)
 authorization to supply natural gas)
 service in the northwestern portion of)
 the unincorporated area of the County)
 of San Bernardino, and to file and)
 make effective natural gas tariff)
 schedules applicable thereto.)

(Gas)

Application No. 36889

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)
 granting and conferring upon applicant)
 all necessary permission and authority)
 to carry out the terms and conditions)
 of a written contract with AMERICAN)
 POTASH & CHEMICAL CORPORATION, dated)
 April 11, 1955 (Exhibit "A" hereof).)

(Interruptible Gas)

Application No. 36890

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)
 granting and conferring upon applicant)
 all necessary permission and authority)
 to carry out the terms and conditions)
 of a written contract with WEST END)
 CHEMICAL CORPORATION, dated April 11,)
 1955 (Exhibit "A" hereof).)

(Interruptible Gas)

Application No. 36891

F. T. Searls and John K. Morrissey, for Applicant;
Lonergan & Jordan by Donald W. Jordan, for
 American Potash & Chemical Corporation and West
 End Chemical Corporation, Interested Party; Waldo
A. Gillette, Joseph T. Enright and Norman Elliott,
 of Enright & Elliott, and Eugene R. Rhodes, for
 Monolith Portland Cement Company, Interested Party;
W. W. Eyers, for Commission Staff.

O P I N I O N

Pacific Gas and Electric Company, by the above-entitled applications filed April 18, 1955, seeks a certificate of public convenience and necessity to exercise the rights and privileges of a franchise granted by the County of San Bernardino by Ordinance No. 760; a certificate authorizing the installation, maintenance, and use of a gas transmission and distribution system in the streets of said county; and an order authorizing applicant to carry out the terms and conditions of agreements dated April 11, 1955 between applicant and the American Potash & Chemical Corporation and West End Chemical Corporation, hereinafter sometimes referred to as the Chemical Corporations. Said agreements relate to the supply of gas service on an interruptible basis. A public hearing was held in Los Angeles before Commissioner Justus F. Craemer and Examiner Carl E. Crenshaw on June 22, 1955.

In general, this proceeding concerns the proposed construction, operation and use of a transmission line from a point of connection with applicant's Topock-Milpitas 3⁴-inch natural gas main No. 300 at valve No. 180.6⁴ located in the Southwest 1/4, Section 4, Township 10 North, Range 6 West, S.B.B.& M., which is to continue northward to the community of Trona. From this transmission line applicant is contemplating the installation, maintenance and operation of distribution systems to render firm and interruptible gas service in the northwestern portion of the unincorporated area in San Bernardino County, including the communities of Atolia, Red Mountain, Westend, South Trona, Borsolovay, Argus, Trona and Pioneer Point. The major gas loads to be supplied through the proposed facilities are the plants of the American Potash & Chemical Corporation and the West End Chemical Corporation near Trona.

Franchise

In Decision No. 49101, dated September 15, 1953, Application No. 29548, a certificate was granted to applicant for the exercise of the rights and privileges of a limited franchise granted by the County of San Bernardino by Ordinance No. 714 which provided for a uniform width of 20 miles lying equally on each side of applicant's so-called Topock-Milpitas pipe line through San Bernardino County.

In the present proceedings, applicant has requested a limited certificate to exercise the rights and privileges of Franchise Ordinance No. 760 of San Bernardino County, which would include the territory lying 10 miles east of the proposed pipe line starting at a point 10 miles north of applicant's Topock-Milpitas pipe line and continuing northerly to the point where a prolongation of this boundary would intersect with the boundary line between San Bernardino and Inyo Counties; thence westerly along the north boundary line of San Bernardino County to its intersection with the county line of Kern County; thence southerly along the Kern County boundary line to a point 10 miles north of applicant's Topock-Milpitas line.

The franchise, a copy of which is attached to Application No. 36889 as Exhibit "C", was granted by the county under the Broughton Act and is of indeterminate duration. A fee is payable annually to the county equivalent to 2% of the gross receipts arising from the use, operation or possession of the franchise; provided, however, that no percentage shall be paid for the first five years succeeding the date of the grant of said franchise.

The costs incurred by applicant in obtaining the franchise are stated to have been \$513.63, which amount does not include costs incident to this application.

No objection to the granting of the requested certificate has been entered.

Proposed Construction and Operation

The proposed new transmission line, as shown in applicant's Exhibit No. 3, will consist of 32.1 miles of 12-3/4-inch OD pipe and 28.2 miles of 10-3/4-inch OD pipe, or a total of 60.3 miles from valve No. 180.64 to Trona.

The estimated cost of the project, as revised at the hearing, is set forth in applicant's Exhibit No. 5 as \$1,906,800 and is made up of the following items:

Transmission	\$1,314,378
Distribution	222,100
Overhead Construction Costs	230,472
Conversion Customers' Appliances to Natural Gas	15,550
Distribution Meters, Regulators and Services Installed	<u>124,300</u>
Grand Total	\$1,906,800

It is estimated by applicant, as set forth in its Exhibit No. 7, that the revenue for the first year from the two Chemical Corporations would amount to \$1,776,912, with estimated expenses, including depreciation and taxes, of \$1,648,342, leaving a net income for the first year of \$128,570. For the third year it is estimated that the gross revenue would amount to \$2,466,084, with corresponding operating expenses of \$2,282,717, resulting in a net income of \$183,367. Exhibit No. 7 also included an estimate of the effect on the Gas Department for the year 1955 of providing service to the American Potash & Chemical Corporation and the West End Chemical Corporation. The rate of return estimated for the Gas Department for 1955, without the revenue from the two Chemical Corporations, was estimated to be 5.64%. With the addition of the revenue and the corresponding expenses for service to the two Chemical Corporations for the third year the estimated return would amount to 5.69%. According to applicant's testimony, the addition of this load would be beneficial to the system as a whole and would not redound to the detriment of existing customers.

Applicant intends to finance the cost of constructing and completing the natural gas project out of its income and other funds in its treasury, not obtained from the issue of securities, as well as from such funds as may be obtained by means of the issue of such of applicant's stocks, bonds, notes or other evidence of indebtedness as the Commission hereafter, upon proper application, may authorize for that purpose.

Proposed Agreement with American Potash & Chemical Corporation

In Application No. 36890, filed April 18, 1955, applicant has requested authorization to carry out the terms and conditions of a written contract dated April 11, 1955, with the American Potash & Chemical Corporation, for the supplying of gas on an interruptible basis. It is provided in this agreement that applicant shall not be required to deliver gas to the American Potash & Chemical Corporation at a rate in excess of 875,000 cubic feet per hour or 21 million cubic feet per day.

It is estimated by applicant that by October 1, 1955, the American Potash & Chemical Corporation, if the agreement is approved by this Commission, would begin using interruptible gas at a rate of 3,280,000 Mcf annually; on June 1, 1956, the annual rate would be increased to 5,540,000 Mcf; and on June 1, 1957, the annual rate of use would be approximately 6,300,000 Mcf.

The rate proposed for this service is the same as applicant's Interruptible Schedule G-50, except that an additional block has been added providing a base rate of 24.6¢ per Mcf (based on \$1.50 per barrel oil and 1100 Btu gas), for over 20,000 Mcf per month. The effective rate based on \$1.90 per barrel oil and 1100 Btu gas for this additional block would be 30.4¢. It is further provided in this agreement that in the event an increase or decrease in applicant's Schedule G-50 for interruptible natural gas service becomes effective, or said Schedule G-50 is superseded by some other schedule of rates and

charges for such interruptible gas service, then applicant shall be entitled under the agreement to increase or decrease the above schedule of rates and charges concurrently and commensurately therewith. The agreement also provides for a minimum charge of \$16,000 per month, which amount is subject to proration in case of curtailment of gas for use by the Company's firm customers or those having a higher priority.

It is further provided in the contract that applicant shall install said transmission main and reserve therein the capacity necessary to deliver to the American Potash & Chemical Corporation interruptible gas at a rate of flow which shall not exceed an hourly maximum of 875,000 cubic feet, in consideration of payment by customer to applicant, in addition to the rate set forth above, of a monthly charge of 2¢ per Mcf for the aggregate of all interruptible gas delivered to the customer under the agreement from the date service is first rendered until 87,200,000 Mcf of such gas shall have been delivered. This 2¢ per Mcf provision is in lieu of an advance on the part of the American Potash & Chemical Corporation of the estimated cost of that portion of the transmission main necessary to provide the capacity reserved for customer's load which would be required under applicant's Rule and Regulation No. 15, entitled Gas Main Extensions. The installation cost, as set forth in the agreement, is \$1,291,000, and is not subject to refund. According to the evidence the surcharge of 2¢ per Mcf, as shown in Table 4 in applicant's Exhibit No. 7, would return to applicant the \$1,291,000, plus interest at 4% on the unpaid balance, over a period of 15 years.

It is further provided that at any time during the term of the agreement the American Potash & Chemical Corporation may, at its option, pay applicant a sum equal to 1.6¢ per Mcf times the difference between said 87,200,000 Mcf and the aggregate amount of such interruptible gas delivered under the contract from the date of first

service to the date of payment of said sum. Upon receipt by applicant of said sum, the monthly surcharge of 2¢ per Mcf for all interruptible gas delivered to the American Potash & Chemical Corporation under the agreement shall thereafter be discontinued.

This contract shall remain in effect until June 1, 1972, and thereafter from year to year subject to termination on 30 days' written notice, at the end of any subsequent contractual year.

The usual liability, curtailment and Commission jurisdictional clauses have been incorporated in this agreement.

Proposed Agreement with West End Chemical Corporation

In Application No. 36891, filed April 18, 1955, applicant has requested authorization to carry out the terms and conditions of a written contract dated April 11, 1955, with the West End Chemical Corporation, for the supplying of gas on an interruptible basis. It is provided in this agreement that applicant shall not be required to deliver gas to West End Chemical Corporation at a rate in excess of 295,000 cubic feet per hour or 7 million cubic feet per day.

This agreement is substantially the same as that with the American Potash & Chemical Corporation except that the volumes of interruptible gas to be used are materially less and their pro rata proportion of the cost of the line would be correspondingly less. The cost of the capacity estimated to be available from the so-called Trons line for interruptible gas service to the West End Chemical is estimated to be \$350,000. This amount is to be paid at a surcharge rate of 2¢ per Mcf for the aggregate of all interruptible gas delivered to West End Chemical under the agreement from the date of first service until 22,500,000 Mcf has been delivered, and such amount is not subject to refund. In its Exhibit No. 7, Table 3, applicant shows the payment of this amount over a period of 13 years by application of the surcharge of 2¢ per Mcf, which includes interest at 4% on the unpaid balance.

It is further provided that at any time during the term of the contract, West End Chemical Corporation may, at its option, pay to applicant a sum equal to 1.6¢ per Mcf times the difference between said 22,500,000 Mcf and the aggregate amount of said interruptible gas delivered under the agreement from the date of first service to the date of payment of said sum. Upon receipt by applicant of said sum the monthly surcharge of 2¢ per Mcf for all interruptible gas delivered to customer under the agreement will thereupon be discontinued.

The rates in this agreement are the same as those for the American Potash & Chemical Corporation, as previously described.

The term of this agreement is 15 years from and after the date of first service, and thereafter from year to year subject to termination on 30 days' written notice, at the end of any subsequent contractual year.

The usual liability, curtailment and Commission jurisdictional clauses have been incorporated in this agreement.

Conclusions re Contracts

Applicant, under its filed Rule and Regulation No. 15 governing gas main extensions, does not make extensions for interruptible service unless the customer pays to the Company an amount of money equal to the estimated cost of such extension or of any enlargement of capacity necessary to supply such customer's load. Further, such advances made by customers for extensions or enlargements of facilities for interruptible service are not subject to refund.

It is applicant's contention in this case, however, that this is a desirable load, which would benefit the system operations as a whole, and which could not be obtained if the Chemical Corporations were required to advance the cost of the extension. Applicant has therefore entered into the proposed agreements with the American Potash & Chemical Corporation and West End Chemical Corporation whereby

the investment necessary for this extension will be repaid to applicant by means of the surcharge of 2¢ per Mcf of gas consumed.

While applicant did not request in its application a deviation from its extension rule to permit the installation of this transmission line on the above basis, at the hearing it requested a ruling under Section (f) of its Rule and Regulation No. 15 for gas main extensions, which provides that in unusual circumstances, when the application of the provisions of that rule appear impracticable or unjust to either party, the Company or applicant may refer the matter to this Commission for special ruling or for approval of any special conditions which may be mutually agreed upon.

Applicant stated that the estimated capital costs of construction of this line, which are chargeable to the service to the Chemical Corporations, will be carried as advances in aid of construction and therefore such monies will not earn a return for rate fixing purposes. As to the other costs involving distribution facilities, which are estimated costs, the Commission at this time is not passing upon the reasonableness of these charges as the actual cost will be of record when the construction work is completed and subject to review for rate fixing purposes. In view of the record presented in this proceeding this proposed solution of the unusual problems presented by this extension appears reasonable.

Under Section 6 in each of the agreements referred to above it is provided as follows:

"6. Pacific shall have the right at the end of the fifth and tenth years after the date of first service hereunder to review the commodity rates as set forth in Section 5 hereof, and if Pacific finds that said rates are not equitable and the parties hereto cannot agree to a mutually satisfactory adjustment the parties, or either of them, may refer the matter to the Public Utilities Commission of the State of California for determination and decision of said Commission and the decision of said Commission shall be binding upon the parties hereto."

It was brought out at the hearing that, even though a rate were to be mutually agreed upon, such revision of the contracts approved thereby must also be referred to this Commission for approval. Therefore, the order herein, in authorizing applicant to carry out the terms and conditions of the aforementioned contracts dated April 11, 1955, will require an amendment to clarify Section 6 of the proposed agreements.

General Conclusions

The rates which applicant proposes to make applicable to customers in this area, other than those referred to in the aforementioned agreements, are G-6.1 - General Natural Gas Service, G-40 - Firm Industrial Natural Gas Service, and G-50 - Interruptible Natural Gas Service. The Commission is of the opinion that separate tariff schedules should be filed for service in this area. Accordingly, the order will provide for the filing of new tariff schedules under appropriate schedule numbers other than G-6.1, G-40 and G-50, but with the level of rates and the conditions as set forth under the aforementioned schedules. Also, the order will provide for the filing, as part of the tariff schedules, of a map delineating the service area.

The Commission, having considered the evidence presented in this proceeding, is of the opinion that the certificate requested should be granted for the exercise of the franchise and that such certificate should provide that applicant may install, maintain and operate the transmission line and distribution systems necessary to render gas service to the two Chemical Corporations and to communities and areas adjacent to the so-called Kramer-Trona line. In addition, the Commission is of the opinion that applicant should be authorized to consummate the two agreements with the Chemical Corporations provided that a supplemental agreement be entered into, and copies filed with the Commission, revising Section 6 to provide for submission for the Commission's approval of any rate revision mutually

agreed upon by both parties thereunder.

While the contracts covering service to the Chemical Corporations are authorized in the order herein, the Commission is of the opinion that, in general, it is desirable to have all service furnished under filed tariffs. Accordingly, the applicant should review the feasibility of filing tariffs to cover the services to the two Chemical Corporations.

Applicant should proceed with due diligence to determine the requirements for natural gas service in communities along the route of the pipeline, including Ridgecrest, and where economically feasible to provide the requisite gas services as promptly as possible subject to the necessary certificates and permits. Applicant will be expected to submit periodic reports to the Commission covering the status of this work.

The certificate of public convenience and necessity herein granted is subject to the following provision of law:

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 for any amount of money 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.

O R D E R

The above-entitled applications having been filed, a public hearing having been held, the matters having been submitted and being now ready for decision,

IT IS HEREBY FOUND AS A FACT that public convenience and necessity require the exercise by applicant of the right, privilege and franchise granted to applicant by Ordinance No. 760 of the County of San Bernardino, subject to appropriate restrictions.

IT IS HEREBY ORDERED that a certificate of public convenience and necessity be and is granted to Pacific Gas and Electric Company to exercise the rights and privileges granted by the County of San Bernardino by Ordinance No. 760 adopted April 4, 1955, subject to the following restrictions:

1. That Pacific Gas and Electric Company shall not exercise said franchise for the purpose of supplying gas in any parts or portions of San Bernardino County not now served by it outside of the territory lying 10 miles east of the proposed pipe line, starting at a point 10 miles north of applicant's Topock-Milpitas pipe line and continuing northerly to the point where a prolongation of this boundary would intersect with the boundary line between San Bernardino and Inyo Counties; thence westerly along the north boundary line of San Bernardino County to its intersection with the easterly line of Kern County; thence south along said Kern County line to a point 10 miles north of applicant's Topock-Milpitas line, except through extensions of its system made in the ordinary course of business as contemplated by Section 1001 of the Public Utilities Code, and
2. 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 FOUND AS A FACT that public convenience and necessity will require the construction and operation of a public utility transmission and distribution system by Pacific Gas and Electric Company in San Bernardino County in the area as set forth in the opinion in this proceeding; therefore,

IT IS HEREBY ORDERED that a certificate of public convenience and necessity be and it is hereby granted to Pacific Gas and Electric Company to construct and operate the transmission and distribution facilities proposed in these proceedings.

IT IS HEREBY FURTHER ORDERED as follows:

1. Applicant is authorized and directed to file new tariff schedules applicable to the territory herein referred to, under appropriate schedule numbers other than G-6.1, G-40 and G-50, with the level of rates and the conditions as set forth under Schedules Nos. G-6.1, G-40 and G-50 and to make them effective on or before the date service is first furnished to the public, together with a map of the service area acceptable to this Commission, in accordance with the requirements of General Order No. 96.

2. Applicant shall notify this Commission in writing of the completion of the system for which this certificate is granted, within thirty days thereafter.
3. That applicant be and it is authorized to carry out the terms and conditions of a written contract dated April 11, 1955, with American Potash & Chemical Corporation, and to render the service described therein under the terms, charges and conditions stated therein except as to the supplemental agreement as provided in this order.
4. That applicant be and it is authorized to carry out the terms and conditions of a written contract dated April 11, 1955, with West End Chemical Corporation, and to render the service described therein under the terms, charges and conditions stated therein except as to the supplemental agreement as provided in this order.
5. That applicant enter into supplemental agreements with the American Potash & Chemical Corporation and with the West End Chemical Corporation, amending Section 6 of both contracts by adding a provision for submission for Commission approval of any rate revision mutually agreed upon at the end of the fifth and tenth years after the date of first service, as provided for in said Section 6.
6. That applicant file with the Commission within thirty days after the effective date of this order, three certified copies of each of the contracts as executed.
7. Applicant shall notify this Commission in writing of the date service is first rendered under each of the agreements authorized herein, within thirty days after such commencement of service.
8. Applicant shall notify this Commission of the date of termination of said contracts within thirty days from and after said date of termination.

The authorization herein granted shall lapse if not exercised within one year from the date hereof.

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

Dated at San Francisco, California, this 12th day of July, 1955.

Justus J. Cameron
 President
Richard L. ...
...
...

Commissioners
 Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.