

Decision No. 53522

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 PACIFIC GAS AND ELECTRIC COMPANY, a)
 corporation, for an order of the Public)
 Utilities Commission of the State of)
 California, granting and conferring)
 upon Pacific Gas and Electric Company)
 permission and authority to carry out)
 the terms and conditions of a written)
 contract with CALAVERAS CEMENT COMPANY,)
 dated March 30, 1956; and issuing to)
 Pacific Gas and Electric Company a)
 certificate of public convenience and)
 necessity to construct, install,)
 operate and maintain the natural gas)
 mains and related facilities herein)
 mentioned, and to exercise franchise)
 rights, obtained or to be obtained in)
 connection therewith.)

Application No. 37989
(Amended)

F. T. Searls, John C. Morrissey and Malcolm A. MacKillop
 for applicant.
John Philip Coghlan of Chickering & Gregory for
 Calaveras Cement Company; J. J. Deuel and
Bert Buzzini for California Farm Bureau Federation;
 interested parties.
George C. Young for the Commission Staff.

O P I N I O N

Applicant's Request

Pacific Gas and Electric Company (hereinafter referred to as Pacific) filed the above-entitled application May 2, 1956, and filed an amendment thereto on June 1, 1956, seeking:

1. Authority to carry out the terms and conditions of a written contract with Calaveras Cement Company (hereinafter referred to as Calaveras), dated March 30, 1956, copy of which is attached to the application as Exhibit A.

2. A certificate declaring that the present and future public convenience and necessity require and will require construction,

operation and maintenance of 21.55 miles of 10-inch and 8.25 miles of 12-inch high pressure gas pipe line to parallel portions of the existing line between the Las Vinas Metering Station, located west of the City of Lodi, and a point near the City of San Andreas, as shown on a map attached to the application as Exhibit B.

3. A certificate declaring that the present and future public convenience and necessity require and will require the exercise of the right, privilege, and franchise granted to Pacific by Ordinance No. 222 of the Board of Supervisors of the County of Calaveras, effective June 20, 1956, a copy of said franchise being attached to the amendment to application as Exhibit D.

Public Hearing

After due notice, public hearing was held upon this application on June 28, 1956 before Commissioner Ray E. Untereiner and Examiner M. W. Edwards at San Andreas, California. At this hearing applicant presented five exhibits and testimony by four witnesses in support of its application. The Commission staff, through a gas engineer, took an active part in the proceeding and by cross-examination of the witnesses helped to develop a complete record as an aid to the Commission in deciding this application. The California Farm Bureau Federation appeared as an interested party in the proceeding, cross-examined the witnesses and generally favored the granting of the application. No party offered any objection to the applicant's proposal.

Agreement with Calaveras

Pacific refers to the fact that it is now serving interruptible gas to Calaveras at a rate of flow not to exceed 400,000 cubic feet per hour under an existing contract,^{1/} the initial term of which will expire August 20, 1958. Calaveras

^{1/} Such contract was authorized in Application No. 24118, by Decisions Nos. 34209 and 52649.

proposes to install additional kilns at its cement plant and has requested Pacific to furnish additional interruptible gas up to a maximum additional flow of 433,000 cubic feet per hour.

Pacific seeks authority to provide the natural gas service in accordance with the terms and conditions of an agreement with Calaveras, dated March 30, 1956. It is provided in the agreement that Pacific shall not be obligated at any time to supply interruptible gas to Calaveras at a rate in excess of 833,000 cubic feet per hour. The contract term is for 13 years and Calaveras expects to consume gas in the quantity of 6,400,000 Mcf per year.

The agreement provides for payment of a surcharge at the rate of 2.5 cents per Mcf in lieu of any immediate obligation of Calaveras to pay the installation cost of that portion of said parallel main necessary to provide the capacity reserved for Calaveras' additional load. It is agreed that the installation cost is \$726,000. The agreement also provides that Calaveras may, at its option, at any time, pay Pacific a sum equal to the unpaid balance of the installation cost, plus accrued interest at the rate of six per cent, and thereafter the 2.5 cents per Mcf payment will stop; and if this cost is unpaid by the end of the 13-year term, Calaveras must pay the entire unpaid balance. The usual liability, curtailment, standby fuel and Commission jurisdictional clauses have been included in the agreement, as well as protective clauses regarding the cost of installing and removing the service facilities if Calaveras terminates the contract prior to the end of the 13-year term.

Proposed Construction and Cost

Applicant plans to provide and install 21.55 miles of new 10-inch high pressure gas main in San Joaquin County between

its Las Vinas metering station, located some 6 miles west of the City of Lodi, to a point some 9 miles east of the community of Lockeford. Said main will be operated in parallel with an existing main consisting of 5.5 miles of 6-inch pipe and a portion of Calaveras' existing 8-inch service main. Also applicant plans to provide and install 8.25 miles of 12-inch high pressure gas main in Calaveras County to parallel, and in time replace, another portion of Calaveras' 8-inch service main in an area where there is danger of outage of the service line. At present this 8-inch service line is owned by Calaveras and applicant has made an arrangement to purchase it from Calaveras at a price of \$168,000. Presently applicant is leasing this 8-inch line at an annual payment of \$36,600 primarily for the purpose of serving Calaveras and some 66 other customers located adjacent to the 8-inch service line in San Joaquin County.

The estimate of cost of the proposed additional gas facilities to serve Calaveras is set forth in Exhibit No. 4 and may be summarized as follows:

131,120 feet of Land Rights	@ \$0.30 per foot	\$ 39,336
113,784 feet of 10-inch pipe	@ \$3.50 per foot, installed	398,244
43,650 feet of 12-inch pipe	@ \$4.63 per foot, installed	202,100
Additional for valves, fittings and river crossings		26,542
Additional regulator facilities at Las Vinas Meter Station		6,000
Overhead construction costs	@ 8%	53,778
	Total	<u>\$726,000</u>

In addition to the above estimated cost Pacific estimates that meter and regulator equipment for interruptible service to be installed at the site of the Calaveras Cement Plant, located some two miles south of the City of San Andreas, will cost \$13,000.

Additional Facility Payment

Because the primary purpose of this parallel pipe line is to serve an additional 433,000 cubic feet per hour of

interruptible gas to the Calaveras Cement Plant, applicant's Rule and Regulation No. 15 requires that the cost thereof be paid by the customer. In connection with its negotiations to take over the existing service line, Pacific offered to advance the \$726,000 provided Calaveras pay it back at the rate of 2.5 cents per Mcf on future interruptible gas purchases. Pacific's Exhibit No. 5 indicates that the \$726,000 principal amount plus \$147,794 interest (at 6% per annum rate) should be paid off in less than 6 years.

Pacific states that it intends to pay the cost of constructing and completing said parallel gas main out of its income and from funds in its treasury not obtained from the issue of securities and/or from such funds as it may obtain by the issue of such of applicants' stocks, bonds, notes or other evidences of indebtedness as the Commission shall hereafter upon proper application authorize for that purpose.

It should be pointed out that the 2.5 cents per Mcf payment is in addition to the regular rates prescribed by Pacific's Schedule G-53 for interruptible gas service.

Economics of Project

Pacific represents that the expenditures for the proposed additional sales will not result in any burden on its other customers and that under the regular interruptible rates these sales would have increased the gas department's rate of return from 5.92 per cent to 5.93 per cent if it had been operative during the entire estimated year 1956. The rate base on which Pacific expects a return would increase by \$181,000 of which \$13,000 represents the meter and regulator equipment and \$168,000 the cost of the existing 8-inch service pipe of Calaveras. The added plant of \$726,000 will not increase the

rate base because it will be charged to Account 125, Accounts Receivable and credited to Account 265, Contributions in Aid of Construction. While applicant's plant will be increased by \$726,000 for the purpose of rate making the contribution in aid of construction will be deducted and the net result will be no increase in rate base for these added pipe sections. Account 524, Interest Revenue, will be credited with an amount equal to 6 per cent per annum on the remaining unpaid balance of the estimated installation cost and the amount of money recovered by the monthly surcharge will be credited to Account 125, Accounts Receivable. In the event that Calaveras elects to pay off the unpaid balance of the estimated installation cost, such amount likewise will be credited to Account 125.

Franchises

Pacific states that it now is, and for some time last past has been, in possession and ownership of certain rights, privileges and franchises of laying, maintaining and using gas pipes, mains and conduits in so many and in such parts of the public highways, streets, ways and places of San Joaquin County as it may elect to use for the purpose of conveying, distributing and supplying gas to the public. Pacific represents that general county franchises were granted by ordinances adopted by the Board of Supervisors of the County of San Joaquin and the Commission issued certificates of public convenience and necessity to exercise said franchises, as follows:

<u>Ordinance No.</u>	<u>Granted</u>	<u>Expires</u>	<u>C.P.U.C. Decision No.</u>
382	July 18, 1927	August 17, 1977	(18957 (21690 (23964
497	April 28, 1947	May 28, 1997	40976

Pacific maintains that it has the right to make the system

additions in San Joaquin County without further franchises from the county authorities. However, in Calaveras County, Pacific heretofore has not rendered a regular public utility gas service and now requests authority to exercise a general county franchise granted by Ordinance No. 222 of the Board of Supervisors of the County of Calaveras, effective June 20, 1956 of indeterminate term.

Pacific states that its costs of acquiring the franchise granted by Ordinance No. 222 was \$243.10, exclusive of the \$50.00 fee paid to this Commission, and stipulates and agrees that it, its successors or assigns, will never claim before the Commission or before any court or public body, a value for this franchise in excess of the actual cost thereof.

In seeking authority to exercise this franchise, Pacific has not limited its request to the portion of the county which this line traverses, but seeks authority covering the whole county. Often, in granting these authorizations, the Commission limits the territory; however, the testimony indicates that there is potential new business which Pacific can extend to and serve after it acquires Calaveras' present service main. Also, Pacific represents that no other utility now serves natural gas in Calaveras County and the authorization sought in this application will not place it in competition with any existing natural gas utility in the county.

Discussion

There are several features of the proposed service that do not appear desirable to the Commission. The Commission prefers that the term of any contract, except under exceptional circumstances, be limited to five years or less. The Commission does not favor a utility advancing money for service extensions to interruptible customers. However, Pacific contends that this is the best arrangement it could make in

negotiation with Calaveras. By paying the \$168,000 for the entire service main, it saves an annual lease payment of \$36,600 and represents that it obtains a line the appraised value of which is approximately \$800,000. Furthermore, a portion of the 8-inch line in Calaveras County is necessary to the service of any future firm loads it may develop. Pacific represents that its net revenue will increase by \$44,000 annually as a result of this proposed contract.

In figuring this gain in net revenue Pacific computed a basic average cost of gas of 24 cents per Mcf and allocated 0.21 cents per Mcf for transmission line compression cost. It did not allow any transmission cost, other than the compressor fuel, on the assumption that the transmission costs are all chargeable to firm services. While Pacific represented that this method of figuring costs was in accord with past practice, it would appear logical that interruptible service should pay some rental charge for using the firm services' transmission lines during off-peak periods and should pay some prorata of demand costs on out-of-state gas purchases. The record shows that the average transmission cost is 13.58 cents per Mcf for firm service alone and that this figure reduces to 6.71 cents per Mcf if the interruptible sales are considered in determining this average transmission cost. The favorable position shown for the proposed contract would largely disappear if as much as 4 cents per Mcf transmission cost were allocated to this service.

The record shows that the present filed rate for interruptible service, Schedule G-53, is approximately 88 cents per barrel below the equivalent cost of fuel oil delivered at Calaveras' plant. Such comparison is based on a cost of fuel oil of \$2.20 f.o.b. Richmond, California, plus 47 cents freight to San Andreas.

Findings and Conclusions

After considering the record herein and the fact that Calaveras is a long established and regular customer of Pacific, the Commission finds and concludes that in general the application should be granted. Applicant is hereby placed on notice that the service herein authorized shall not be permitted to burden its other customers.

In entering into this contract Calaveras takes the risk that interruptible gas may not be available to the extent forecast by Pacific for the next 13 years, and that the rates may have to be raised to the equivalent level of fuel oil or higher in the not too distant future. Another risk that Calaveras takes is that the smog situation may become so bad in San Francisco, Los Angeles or other metropolitan centers that the Commission may be required, in the public interest to reduce the available gas supplies to loads in areas not particularly subject to smog.

The Commission finds that public convenience and necessity require the construction, operation and maintenance of 21.55 miles of 10-inch and 8.25 miles of 12-inch high pressure gas pipeline to parallel portions of the existing gas line between the Las Vinas Metering Station and a point near the City of San Andreas, generally as described in the application, to serve the additional interruptible gas requirements of Calaveras, and the acquisition and use of all lands, rights of way and easements, and the exercise of all rights, permits, and franchises, including Ordinance No. 222 of the

County of Calaveras to such extent as is necessary to install and operate the parallel pipe sections. Also the Commission finds that public convenience and necessity require the exercise by applicant of the rights and privileges granted by Ordinance No. 222 in all portions of Calaveras County within economic reach of the existing 8-inch main being acquired by Pacific.

The certificate of public convenience and necessity issued herein 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 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 application having been considered, a public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY ORDERED that a certificate of public convenience and necessity be and it is granted to Pacific Gas and Electric Company to construct, operate and maintain 21.55 miles of 10-inch and 8.25 miles of 12-inch high pressure gas pipe line to parallel portions of the existing gas line between the Las Vinas Metering Station in San Joaquin County and a point near the City of San Andreas in Calaveras County, generally as described in the application, and to exercise the right, privilege and franchise granted to it by Ordinance No. 222 by the Board of Supervisors of the County of Calaveras to the extent necessary to construct, operate and maintain the new section of 12-inch main in Calaveras County and to serve potential existing or future customers within economic reach of the existing 8-inch

main being acquired by it from Calaveras Cement Company.

IT IS HEREBY FURTHER ORDERED as follows:

1. That applicant be and it is authorized to carry out the terms and conditions of a written contract with Calaveras Cement Company, dated March 30, 1956.
2. That applicant file with the Commission within thirty days after the effective date of this order three certified copies of the contract as executed.
3. That applicant shall notify this Commission in writing of the date service is first rendered under the agreement herein authorized, within thirty days after such commencement of service.
4. Applicant, within six months following the date of completion of this construction, shall file with this Commission a detailed statement of the capital costs of the added pipeline and related facilities, plus a statement of the amount actually paid for Calaveras' 8-inch main, together with a statement as to the amount at which this entire main, as paralleled, will be placed in applicant's plant accounts and the charges and credits to such other accounts as may be involved.
5. Applicant shall notify this Commission of the date of termination of said contract within thirty days after said date of termination.
6. Applicant, within thirty days after the installation cost including interest, has been paid by the customer, shall furnish this Commission a detailed summary of the accounting thereof and, in the event that the contract is terminated in any manner prior to the completion of pay-out of the installation cost an appropriate accounting summary shall be included with the above-mentioned termination notice.

The authorization herein granted will expire 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 31st day of July, 1956.

[Signature]
President

[Signature]

[Signature]

[Signature]

Commissioners

Commissioner Justus F. Graemer, being necessarily absent, did not participate in the disposition of this proceeding.