

Decision No. 53752

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 SOUTHWEST GAS CORPORATION, for a)
 certificate of public convenience and)
 necessity under Article I of Chapter V)
 of the Public Utilities Code to)
 construct, operate and maintain a)
 natural gas distribution system and to)
 exercise all permits, easements and)
 franchises which may be used or useful)
 in connection with a natural gas)
 distribution system in the vicinity)
 of Lucerne Valley, County of)
 San Bernardino.)

Application No. 37760
(Amended)

W. M. Laub and C. H. McCrea for applicant.
J. C. Morrissey for Pacific Gas and Electric Company;
J. J. Deuel and Bert Buzzini for California Farm Bureau
 Federation; Joseph T. Enright and Norman Elliott of
 Enright & Elliott, and Waldo A. Gillette for Monolith
 Cement Company; O'Melveny & Myers by L. M. Wright
 for Riverside Cement Company; W. H. Bailey, Jr. and
Arthur D. Baldwin for California Electric Power
 Company; Wm. A. Betterley for Big Bear Lake Gas Company,
 Inc., interested parties.
William W. Evers for the Commission staff.

O P I N I O N

Applicant's Request

Southwest Gas Corporation, (hereinafter sometimes referred to as Southwest or applicant) a California corporation, engaged as a public utility in the sale and distribution of gas in San Bernardino County, California, filed the above-entitled application February 16, 1956, and filed an amendment thereto on June 22, 1956, seeking a certificate of public convenience and necessity for the following purposes:

- (1) To authorize new construction to serve the community of Lucerne Valley which is located in Township 4 North, Range 1 West, S.B.B. & M.

- (2) To exercise franchise rights granted by Ordinance No. 505 of the County of San Bernardino and to extend its gas lines through and provide service to residents in the following townships:

Township 5 North, Range 2 West
Township 4 North, Range 1 East
Township 4 North, Range 1 West
Township 4 North, Range 2 West
Township 4 North, Range 3 West,
S.B.B. & M.

A map of this proposed additional service area is included as Exhibit A to the application.

Public Hearing

After due notice, three days of public hearing on March 29, June 13 and July 18, 1956, were held on this application before Commissioner Ray E. Untereiner and Examiner M. W. Edwards. The first day of hearing was held in Victorville and the second and third days were held in Los Angeles.

The first day of hearing preceded the hearing on Application No. 37635 of the Pacific Gas and Electric Company which was concerned with an extension of service to the Cushenbury cement plant located some eight miles southeast of the town of Lucerne Valley. The route of the extension line passes some two miles east of Lucerne Valley and Pacific sought authority to serve an area some ten to eleven miles either side of the line. Thus, two gas utilities were seeking to serve Lucerne Valley. This was a preliminary day for the applicant and it sought and obtained the ~~Commissioner's promise~~ ^{presiding Commissioner's Assurance} ~~to~~ hold ^{that he} final decision on the request of Pacific until it had time to prepare and present its case. *PM*

At the second day of hearing the applicant presented ten exhibits through two witnesses in support of its request to serve the town of Lucerne Valley. It came to an understanding with Pacific as to an economical method of obtaining a supply of gas for the area and thereafter Pacific offered no objection to the applicant's

proposal. At this hearing it sought permission to amend its application to include Township 4 North, Range 1 East and Township 4 North, Range 3 West in its service area. However, inasmuch as proper public notice of its desire to expand its original request had not been given, it was necessary to schedule a third day of hearing in case any parties desired to oppose the request.

At the third day of hearing no parties offered any objection to the amendment to the application and the matter was submitted for Commission decision. This hearing preceded hearing on Applications Nos. 38170 and 38171 by Pacific Gas and Electric Company to serve interruptible gas to two cement mills in applicant's Victorville service territory.

Source of Gas Supply

Applicant now purchases all of its gas from Pacific Gas and Electric Company for its Victorville service area and transmits the same into the City of Victorville by means of a 4-inch line. Applicant's load is growing and it needs additional gas and pressure reinforcement in Victorville. Pursuant to a stipulation entered into at the hearing on Applications No. 38170 and 38171, an additional supply of gas of 500,000 cubic feet per hour will be made available from the line which Pacific will build to serve the two cement plants near Victorville.

Applicant's original plan was to extend its mains from Apple Valley eastward to Lucerne Valley; however, when an understanding was reached with Pacific it appeared more economical to obtain the gas for Lucerne Valley from the new extension which Pacific is building to serve the Cushenbury cement plant. Exhibit No. 4 shows that the total cost of construction to the Lucerne Valley District to receive gas from Apple Valley would be \$200,446 and Exhibit No. 3 shows that from the Cushenbury extension westward the total cost would be \$196,543.

Proposed Construction and Cost

Applicant proposes to install 2.5 miles of transmission line consisting of 4½-inch O.D. pipe, 5.5 miles of 4½-inch O.D. distribution pipe and 10.5 miles of 2 3/8-inch O.D. distribution pipe. Applicant's cost figures, as shown in Exhibit No. 3, are summarized below:

Estimated Project Cost

Pro rata cost of P.G. & E. Cushenbury Line	\$45,000
Transmission	
13,200 ft. of 4½-inch pipe installed	16,632
Distribution	
29,040 ft. of 4½-inch pipe installed	36,590
13,200 ft. of Highway Encroachment, etc.	3,300
55,440 ft. of 2 3/8-inch pipe installed	55,440
2 District Regulator Stations	3,600
286 Service and Meter Installations	24,310
Total Direct Costs	<u>184,872</u>
Miscellaneous	
Overhead and Contingencies at 5 per cent	9,244
Interest during construction	2,427
Total project cost	<u>\$196,543</u>

Of this total cost applicant allocates \$48,488 to the existing Victorville and Apple Valley Districts which will receive benefits from this pipeline, and sets the Lucerne Valley District's share of investment at \$148,055. However, additional gas will become available to applicant at Victorville from Pacific as a result of construction by Pacific of facilities to serve the two cement plants in the Victorville area. Accordingly, it may not be necessary for applicant to construct a cross-connection between Lucerne Valley and Apple Valley at this time for the purpose of obtaining pressure reinforcement in the latter area. If such cross-connection is not built, it does not appear that any of the Lucerne Valley costs should be allocated out of the district. ✓

Applicant intends to pay the cost of constructing and completing this project out of its income and other funds in its treasury not obtained from the issue of securities and/or from such funds as may be obtained by means of the issue of such of its stock, bonds, notes or other evidences of ownership or indebtedness as the Commission ✓

shall hereafter, upon proper application, authorize for that purpose.)

Economics of Project

Applicant estimates that the first full year will show a rate of return of 2 per cent in the Lucerne Valley District and that in the fifth year this return should improve to 5.4 per cent. These figures are set forth in Exhibit No. 8 and may be summarized in the manner following:

Estimated Operating Results - Lucerne Valley District

	<u>First Year</u>	<u>Fifth Year</u>
Statistics:		
Number of Customers	286	839
Sales of gas - Mcf	34,659	97,727
Revenue:	\$33,466	\$96,023
Expenses:		
Cost of gas purchased	13,533	38,159
Transmission	296	867
Distribution	3,184	9,341
Customers' Acctg. & Coll.	1,421	4,170
Sales Promotion Expense	412	1,210
Administrative & General	882	2,588
Depreciation	4,442	7,511
Taxes other than Fed. Income	3,285	6,591
Federal Income Taxes	3,126	13,305
Total	<u>30,581</u>	<u>83,742</u>
Net Revenue	2,885	12,281
Net Plant Investment and Working Cash	147,334	228,235
Rate of Return	2.0%	5.4%

The rates of return will be reduced from those indicated above if all of the costs of the facilities from Pacific's Cushenbury extension are charged to Lucerne Valley as previously discussed.

Franchises

Southwest states that the territory for which a certificate is requested is included within its franchise area described in Ordinance No. 505 of the County of San Bernardino. A copy of this ordinance is attached to Application No. 36457 as Exhibit A. By Decision No. 51837 under that application and by previous applications and decisions, the applicant heretofore has been authorized to exercise the franchise in limited portions of the area covered in the franchise. At this time it appears reasonable to authorize applicant

to exercise the franchise within the five additional townships as requested.

Rates

Applicant proposes to charge for gas service in the areas for which certification is requested at the same rates which it now charges under its presently filed tariff sheets, and which rates are applicable in the immediately adjacent areas of Apple Valley and Victorville. Applicant's showing indicated that it would receive a rate of return of approximately 5.4 per cent on this system, extending from the Permanente line, at the end of the fifth year of operation, and only a 2 per cent rate of return in the first year. While a utility cannot expect to realize the full rate of return during the development period of a new project, it should not charge such rates as will unduly burden its other consumers. In view of the relatively long period before the Lucerne Valley area will earn a return comparable to the system rate of return, applicant will be required to keep separate records for the Lucerne Valley District. By this means proper rate levels may be established in the Lucerne Valley District, if in the future applicant seeks a rate increase, without this area becoming a burden on the customers in the rest of applicant's system.

Findings and Conclusions

After considering the record herein and the decisions of the Commission with regard to Applications Nos. 37635, 38170 and 38171 of Pacific Gas and Electric Company which will provide applicant with additional gas supply and which, in turn, will enable applicant economically to extend into and serve the present and prospective load in 5 additional townships, the Commission finds and concludes that in general the application, as amended, should be granted.

The Commission finds that public convenience and necessity require the construction, use, operation and maintenance of gas pipe lines and the exercise of franchise rights in the following townships:

Township 5 North, Range 2 West
Township 4 North, Range 1 East
Township 4 North, Range 1 West
Township 4 North, Range 2 West
Township 4 North, Range 3 West
S.B.B. & M.

The certificate of public convenience and necessity granted 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, public hearing having been held, the matter having been submitted and now being ready for decision; therefore,

IT IS HEREBY ORDERED that Southwest Gas Corporation be and it is granted a certificate that public convenience and necessity require the construction, use, operation and maintenance of a gas main extension generally as described in this application, as amended, and require the exercise by it of the right, privilege and franchise granted to it by Ordinance No. 505 of the County of San Bernardino and the necessary extension of its gas lines through and to provide service to customers in the following townships:

Township 5 North, Range 2 West
Township 4 North, Range 1 East
Township 4 North, Range 1 West
Township 4 North, Range 2 West
Township 4 North, Range 3 West,
S.B.B. & M.

IT IS HEREBY FURTHER ORDERED as follows:

1. That applicant may deviate from its filed Rule and Regulation No. 15 in accordance with Section G thereof in order to install the mains and serve the customers as contemplated in this application.

2. Extensions to serve new customers, in addition to those proposed in this application, shall strictly comply with applicant's Rule and Regulation No. 15.

3. Applicant, within six months following the date of completion of this project, shall file with this Commission a detailed statement of the capital costs of the added pipeline and related facilities segregated by districts.

4. Applicant shall segregate for accounting purposes its capital investment and operating expenses within the Lucerne Valley District from the remainder of the system, and maintain records in such manner as will enable rate of return studies to be prepared separately for this district in the future.

5. Applicant is authorized to sell gas at the filed tariff rates presently effective in Victorville and Apple Valley and shall so revise existing tariffs including the service area map and refile the same prior to time service is rendered in the Lucerne Valley District. Such filing shall be made in accordance with the requirements of General Order No. 96 and shall be made effective on not less than five days' notice to the Commission and to the public.

6. The authorization herein granted will expire if not exercised within two years after the date hereof.

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

Dated at San Francisco, California, this 11th day of SEPTEMBER, 1956.

[Signature] President
[Signature]
[Signature]
[Signature]
[Signature] Commissioners