

ORIGINAL

Decision No. 54772

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 granting)
 to applicant, among other things, a)
 certificate or certificates of)
 public convenience and necessity to)
 construct, operate and maintain)
 natural gas mains to connect its)
 natural gas system in Humboldt County)
 with its natural gas system in the)
 upper Sacramento Valley; and to)
 exercise rights under franchises)
 obtained or to be obtained in con-)
 nection therewith.)
 _____ (Gas)

Application No. 38638

Appearances and Witnesses are set forth in Appendix A.

O P I N I O N

Applicant's Request

Pacific Gas and Electric Company, a California corporation, engaged as a public utility principally in the business of furnishing electric and gas service in central and northern California^{1/}, filed the above-entitled application on December 6, 1956, requesting an order or orders of the Commission for the following purposes:

1. Finding as a fact that the present and future public convenience and necessity require the construction, operation and maintenance of the natural gas project described in the application to connect applicant's existing natural gas

^{1/} Applicant also distributes and sells water in a number of cities and towns and certain rural areas, and produces and sells steam heat in certain parts of the cities of San Francisco and Oakland.

system in Humboldt County with its existing integrated natural gas system in the upper Sacramento Valley, and will require the exercise of the gas franchises and rights obtained or to be obtained from the counties of Butte, Humboldt, Shasta, Tehama and Trinity in connection therewith.

2. Granting and issuing certificates of public convenience and necessity to:
 - (a) Construct, operate and maintain the natural gas project described in the application;
 - (b) Exercise the rights and privileges under the general county franchises granted by Ordinance No. 350 of the Board of Supervisors of the County of Butte, Ordinance No. 204 of the Board of Supervisors of the County of Humboldt, Ordinance No. 224 of the Board of Supervisors of the County of Trinity, and Ordinance No. 145 of the Board of Supervisors of the County of Tehama, to the extent necessary to construct, operate and maintain the project, and extensions thereof made in the ordinary course of business, in the unincorporated territory of said counties.
3. Declaring that the Commission will hereafter, when applicant secures the right, privilege and franchise which it contemplates securing from the County of Shasta, issue a certificate declaring that the present and future public convenience and necessity require and will require, the exercise of the right, privilege and franchise to be granted by said contemplated franchise.

Public Hearing

After due notice, public hearing was held on this application before Examiner Manley W. Edwards on February 28 and March 1, 1957, in Eureka. Applicant presented 7 exhibits and testimony by 5 witnesses in support of its application. The Commission staff, represented by its Gas and Electric Engineer, cross-examined the witnesses for the purpose of developing a complete record to aid the Commission in deciding the matter. Counsel for the California Farm Bureau Federation and a representative of the Eureka Chamber of Commerce and Humboldt County Board of Trade urged the Commission to authorize the project. No one at the hearing offered any objections to applicant's proposal.

Reason for Application

Applicant now is and since 1941 has been furnishing and supplying some natural gas service to customers in Humboldt County, principally in the communities of Eureka, Arcata, Loleta, Fernbridge and Fortuna. Natural gas is obtained from Tompkins Hill Gas Field located approximately 14 miles southeast of the City of Eureka. Only sufficient natural gas is available to supply a portion of the firm load of the domestic and commercial customers, none now being available for interruptible loads. During periods of peak day demands, natural gas is supplemented by propane-air gas generated at two standby plants, one located at Eureka and the other at Arcata.

The quantity of natural gas available is expected to decline in the future from the 10,800,000 cubic feet per day available last winter and the approximate 8,000,000 cubic feet per day rate estimated to be presently available, to a rate of about 5,700,000 cubic feet in the winter of 1961-62, unless a supplemental supply is obtained. As of December 31, 1956, applicant served 15,886 firm gas customers in Humboldt County and estimates that there are an additional 4,600 customers that it could serve if an adequate natural

gas supply were available. Furthermore, applicant represents that there is some interruptible business, including its steam-electric plant, that would furnish a good load during off-peak periods for a pipe line system such as that proposed.

Applicant estimates that for the winter of 1956-57, if extreme cold temperatures occur, approximately 50% of the demand on such a day will have to be supplied by propane-air gas, and for the year 1957 it will be necessary to spend approximately \$470,000 to supplement, with propane-air gas, the available natural gas supply to the existing service area. Applicant states that in future years, without an additional source of natural gas, the installation of additional propane-air capacity will be necessary and the average costs of rendering service will materially increase since the present cost of making propane-air gas is estimated to be \$1.44 per Mcf of equivalent 1040 Btu gas. This figure is nearly double the current average revenue of 79 cents per Mcf.

Applicant represents that it has a public duty to continue to supply natural gas to its customers in Humboldt County and that the most economical manner of meeting this obligation and the increasing demands for gas in Humboldt County is to construct and operate the proposed gas transmission main to connect the Humboldt area with its integrated natural gas system in the upper Sacramento Valley. Applicant is desirous of commencing construction early in the spring of 1957 with completion thereof scheduled for the summer of 1958.

Source of Additional Gas

The principal source of additional natural gas for the Humboldt area will be from the gas fields in the general vicinity of Beehive Bend and Perkins Lake in Glenn and Butte Counties. In this general area the producing fields and dates of discovery are:

<u>Field</u>	<u>Date</u>
Corning - North Dome	October 1944
Corning - South Dome	February 1951
Perkins Lake	November 1954
Llano Seco	November 1954
Beehive Bend-Willows	April 1953
Princeton	December 1953

One of applicant's witnesses testified that during 1955 additional drilling in Perkins Lake and other fields indicated that ultimately development would result in relatively high production rates and that there were substantial gas reserves. He estimated the combined maximum availability of these several fields at 260,000,000 cubic feet per day, over ten times the capacity of the proposed pipe line of 21,000,000 cfd.

Proposed Construction

The proposed construction and its estimated approximate cost is:

Structures and Improvements	\$ 54,500
Land and Land Rights	236,800
Roads and Trails	340,000
4.6 miles of 16-inch O.D. Main from existing Main 136, North of Perkins Lake, northward to connect to existing Main 177	210,000
Renovate existing 10-3/4 inch O.D. Main 177 between 16-inch connection and Corning-North Dome Field by replacing 600 psi valves and fittings with 960 psi valves etc.	20,000
Improvements in Corning Field - 8,000 feet of 6-5/8 inch O.D. collecting main	23,200
160 miles of 12-3/4 inch O.D. pipe line from Corning to Eureka	7,570,500
8.4 miles of 6-5/8 inch O.D. main from Eureka to Arcata	155,200
Compressor-Stations: 1 - 400 hp at Corning-North Dome and 1 - 75 hp at Corning-South Dome	143,000
Measuring and Regulating Equipment	98,000
Other Transmission Equipment	100,000
Sub Total	\$8,951,200
Overhead Construction Costs at 10%	895,120
Sub Total	\$9,846,320
Salvage: 600 psi valves and fittings from Main 177	5,000
Total Estimated Cost	\$9,841,320

Applicant intends to pay the cost of constructing and completing this natural gas 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 applicant's stock, bonds, notes or other evidences of indebtedness as the Commission shall hereafter, upon proper application, authorize for that purpose.

Cost of Transmission

Applicant presently estimates that it will be able to transmit gas at an average cost of 16.3 cents per Mcf when it is able to operate the line at 100 per cent load factor and transmit approximately 8,301,000 Mcf per year to Tompkins Hill of 943 Btu gas. The method by which applicant computed this cost follows:

	<u>From Perkins Lake To Main 136</u>	<u>From Main 136 To Red Bluff Area</u>	<u>From Red Bluff Area To Tompkins Hill</u>
Capital Investment	\$ 482,345	\$ 1,052,710	\$7,568,000
Annual Costs:			
Operation & Maintenance	3,000	22,000	66,000
Compressor Stations:			
Operation	no charge	10,000	no charge
Fuel	no charge	7,000	no charge
Fixed Costs (@14.29%)	<u>69,000</u>	<u>150,000</u>	<u>1,081,000</u>
Total Annual Costs	72,000	189,000	1,147,000
Gas Transmitted Mcf per Year	10,575,000	10,073,000	8,301,000
Unit Cost per Mcf	0.6¢	1.9¢	13.8¢

The costs were computed in three segments as shown because of the estimated future deliveries from the lines to the Red Bluff area.

Economics of Line

Applicant represents that based on its presently filed and effective rate levels its revenue would have to be increased in the aggregate by about 21 per cent in order to earn a 6 per cent return on the capital investment in facilities needed to provide natural

gas service to its customers in its Humboldt Division. Additional revenues could be obtained from 4,600 potential new customers and from interruptible industrial and steam plant sales. Based on annual sales in 1956 of 2,139,261.7 Mcf in the Humboldt Division at a revenue of \$1,687,926.75, a 21 per cent increase would yield approximately \$354,000. This would leave an added annual gross revenue of roughly \$1,000,000 over the cost of gas to be obtained from new customers and interruptible sales to make the project economically sound.

Applicant also represents that this 21 per cent increase would be substantially less than that which would be required if it continues to use increasing quantities of propane-air gas to supply the difference between its growing gas requirements and the declining natural gas supplies from Tompkins Hill Field. Applicant's Exhibit No. 3 shows the following cost of propane-air gas to meet the anticipated natural gas deficiencies for the next six years:

<u>Year</u>	<u>Natural Gas Deficiency Mcf</u>	<u>Deficiency Expressed as gallons of Propane</u>	<u>Estimated Cost of Propane- Air Gas</u>
1957	328,000	3,734,000	\$ 473,000
1958	456,000	5,186,000	657,000
1959	657,000	7,468,000	946,000
1960	986,000	11,201,000	1,419,000
1961	1,387,000	15,765,000	1,997,000
1962	1,788,000	20,328,000	2,575,000

Such figures are based on the existing service area of the Humboldt Division and do not contemplate adding the potential 4,600 customers heretofore mentioned. The cost of propane in the tabulation above was assumed at approximately 12.6 cents per gallon which includes the costs of superintendence and labor of handling the propane but excludes any fixed charges on the gas-air mixing plant and storage.

Franchises, Rights of Way, and Easements

Applicant plans to lay and install the gas transmission mains on public highways, streets, roads, places and private rights of way in the Counties of Butte, Tehama, Shasta, Trinity and Humboldt. With the exception of Shasta County it now is in possession of county franchises for laying, constructing and maintaining gas pipes, mains and conduits in the public highways, streets, roads or places for the purpose of conveying, distributing and supplying gas to the public in said counties. In Exhibit "D" to the application, the applicant lists the franchises in Butte, Humboldt and Tehama Counties under which formerly the Commission has authorized certificates of public convenience and necessity as follows:

<u>County</u>	<u>Ordinance No.</u>	<u>Granted</u>	<u>Expires</u>	<u>California P.U.C. Certificates</u>	
				<u>Appl. No.</u>	<u>Dec. No.</u>
Butte	350	1-28-38	2-11-88	22217	34496
				22717	32247
Humboldt	204	11-16-40	12-16-90	23773	33691
				26438	37551
				26559	37982
Tehama	145	5-11-53	Indeterminate	34459	49130

It seeks certificates under the above listed franchises to the extent necessary to construct, operate and maintain the proposed project.

Also it seeks a certificate to exercise the franchise just granted by Ordinance No. 224 of Trinity County. The term of this franchise is indeterminate. The Ordinance was passed February 5, 1957, and is expected to take effect and be in force upon the expiration of thirty days after its passage. Applicant represents that the Trinity County franchise cost \$250.07 to obtain, made up of the following items:

Publication of Intent	\$131.75
Publication of Ordinance	18.32
Bid Price	<u>100.00</u>
Total	\$250.07

A copy of Ordinance No. 224 is included in this record as Exhibit No. 5. It provides for the payment of two per cent of the applicant's gross annual receipts arising from the use, operation or possession of the franchise.

By Exhibit No. 6 applicant submitted a copy of a resolution of intention of the Board of Supervisors of the County of Shasta to grant a gas franchise to the applicant which was dated February 11, 1957. Applicant requests a preliminary order showing the Commission's intent to issue a certificate when applicant obtains the Shasta County Ordinance.

Competition and Rates

Applicant states that this proposed project of new construction and natural gas service will not compete with any person, firm or public or private corporation now engaged in the business of furnishing or supplying public utility gas service to the public in the area involved or adjacent to the territory in which the proposed gas mains are to be constructed.

While applicant currently estimates that its present rate levels will have to be increased by 21 per cent, the completion date is a considerable time in the future and economic conditions may change sufficiently to require a higher or lower ratio of increase. Accordingly, prior to the completion of the project (currently scheduled for the summer of 1958) applicant proposes to file a supplemental application in this proceeding so that the most current customer sales and expense estimates may be used in establishing new rates and special rate areas.

Findings and Conclusions

After considering the testimony of record in this proceeding, the Commission finds merit in the applicant's proposal. While this proposal involves a very substantial capital investment and may require some increase in rates, it is the Commission's conclusion that the prospect of new domestic, commercial, firm industrial and interruptible load is sufficient to make the project economically sound.

The representative of the Humboldt County Board of Trade and Eureka Chamber of Commerce stated that the area is growing more rapidly than forecast by the applicant and that the applicant's estimate of new customers and industrial load is on the low side. He indicated that even with the proposed 21 per cent increase in rates, the gas would be cheaper than fuel oil delivered to the area. Counsel for the California Farm Bureau Federation made a statement in support of the application and was pleased with applicant's willingness to serve additional areas and make gas available to agricultural loads.

The Commission finds that public convenience and necessity require the construction, operation and maintenance of some 173 miles of new gas main to connect the applicant's existing natural gas system in Humboldt County with its existing integrated natural gas system in the upper Sacramento Valley as described in the application and will require the exercise of the gas franchises and rights obtained or to be obtained from the Counties of Butte, Humboldt, Shasta, Tehama and Trinity in connection therewith.

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 charges) 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 it having been found that public convenience and necessity so require; therefore

IT IS HEREBY ORDERED:

1. That a certificate of public convenience and necessity be and it is granted to Pacific Gas and Electric Company to:
 - a. Construct, operate and maintain the natural gas project proposed in the application and as hereinbefore described.
 - b. Exercise the rights and privileges under the general county franchises granted by Ordinance No. 350 of the Board of Supervisors of the County of Butte, Ordinance No. 204 of the Board of Supervisors of the County of Humboldt, Ordinance No. 145 of the Board of Supervisors of the County of Tehama, and Ordinance No. 224 of the Board of Supervisors of the County of Trinity to the extent necessary to construct, operate and maintain the natural gas project hereinbefore described and make extensions therefrom in the normal course of business in the unincorporated territories of said counties.
2. That when applicant secures the rights, privileges and franchises which it contemplates securing from the County of Shasta and duly files a copy thereof by means of a supplemental application herein, the Commission will issue a certificate of public convenience and necessity to exercise said contemplated franchise.

3. That applicant shall maintain its records so that revenues, capital costs, and operating expenses for the natural gas project herein authorized may be readily determined at any time.

4. That applicant shall notify this Commission in writing of the completion of the system for which this certificate is granted, within sixty days thereafter.

5. That applicant shall not exercise the franchises for the purpose of supplying gas in those parts or portions of the counties not now served by it except through extensions of its existing system made in the ordinary course of business as contemplated by Section 1001 of the Public Utilities Code.

6. That the Commission may hereafter, by appropriate proceeding and order, limit the authority herein granted to applicant or to any territory within said county not then being served by it. ✓

The authority herein granted will expire if not exercised within three years from the effective date hereof.

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

Dated at San Francisco, California, this 27th day of April, 1957.

John E. Mitchell
President
Ray J. Terrier
William H. Dool
W. H. Harty
E. J. Fox
Commissioners

APPENDIX A

LIST OF APPEARANCES

F. T. Searls and John C. Morrissey for applicant.

Bert Buzzini for California Farm Bureau Federation; and R. F. Denbo for Humboldt County Board of Trade and Eureka Chamber of Commerce, interested parties.

M. J. Kimball for the Commission Staff.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by:

John G. Smith, Ivan C. Odom, S. A. Haavik,
Rudolph Jenny, and R. W. Joyce.