

54842

ORIGINAL

Decision No. _____

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 1 of)
 Chapter 5 of the Public Utilities)
 Code to construct, operate and main-)
 tain 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 Hinkley, County)
 of San Bernardino, California.)

Application No. 38678
(Amended)

C. H. McCrea and William Laub, for applicant.
F. T. Searls and Malcolm A. MacKillop, for
 Pacific Gas and Electric Company, protestant.
Walter H. Bailey, Jr., for California Electric
 Power Company; J. J. Deuel and Eldon Dye
 for California Farm Bureau Federation, inter-
 ested parties.
William W. Evers for the Commission staff.

O P I N I O N

Applicant's Request

Southwest Gas Corporation, engaged as a public utility in the business of selling and distributing natural gas in certain portions of San Bernardino County, California, filed the above-entitled application on December 14, 1956, and on February 8, 1957, filed the first amendment thereto, requesting the Commission to issue an order:

1. Granting and issuing, under Section 1001 of the Public Utilities Code, a certificate of public convenience and necessity to construct, operate and maintain natural gas mains and to provide the service described in the application.
2. Granting and issuing under Section 1002 of the Public Utilities Code, a certificate of public convenience and necessity to exercise the rights and privileges under the franchise granted by Ordinance No. 794 of the Board of Supervisors of the County of San Bernardino to the extent necessary to

construct, operate and maintain the projects described in the application in Townships: 8, 9 and 10 North, Range 3 West; the easterly halves of Townships 8, 9 and 10 North, Range 4 West; Township 10 North, Range 1 East; Townships 10, 11, 12 and 13 North, Range 2 East; the northerly half of Township 9 North, Range 2 East; and Township 13 North, Range 3 East, S.B.B. & M., San Bernardino County, California.

3. Withdrawing and extinguishing the certificate of public convenience and necessity previously issued to Pacific Gas and Electric Company in Decision No. 49101 to the extent that said certificate applies to: Townships 8, 9 and 10 North, Range 3 West; the easterly halves of Townships 8, 9 and 10 North, Range 4 West; Township 10 North, Range 1 East; Townships 10 and 11 North, Range 2 East; and the northerly half of Township 9 North, Range 2 East, S.B.B. & M., San Bernardino County, California.

Public Hearing

After due notice, public hearing on the application, as amended, was held in Victorville on February 18, 1957, before Examiner Manley W. Edwards. Applicant presented 14 exhibits and testimony in support of its application. The Commission staff, represented by a gas engineer, cross-examined the witnesses for the purpose of developing a full record to aid the Commission in deciding this matter. Other parties also cross-examined the witnesses. The Pacific Gas and Electric Company appeared as a protestant to certain of applicant's requests. The matter was submitted for decision at the close of the day's hearing subject to the filing of Exhibit No. 15 as a late-filed exhibit containing certain rate curves.

Proposed Construction

This application, as amended, proposes construction in two districts: the Hinkley territory, west of Barstow, and the Camp Irwin territory, northeast of Barstow.

Applicant represents that the Hinkley territory ^{1/} lies directly between its Barstow and Victorville certificated service

^{1/} T 8, 9 and 10 N, R 3 W; and the easterly halves of T 8, 9 and 10 N, R 4 W.

areas. It proposes to serve all customers in the Hinkley territory from taps made on the Oro Grande-Victorville pipeline extension being installed by the Pacific Gas and Electric Company. Authority to tap Pacific's line is based on a stipulation entered under Applications Nos. 38170 and 38171 which provided: "Pacific shall give Southwest Gas, at Southwest's expense, any reasonable number of taps off of the proposed Oro Grande-Victorville line, including but not limited to farm or other individual taps ***."

The estimated cost of the proposed distribution system to serve Hinkley is:

Approximately 9.7 miles of 2-3/8-inch O.D. Pipe	\$ 46,935
115 Service and Meter Installations	10,000
Measuring and Regulating Equipment.	<u>6,069</u>
Total Direct Cost	63,004
Overhead and Contingency - 7 1/2%.	<u>4,725</u>
Sub-Total	67,729
Interest During Construction (3 Months @ 6%)	<u>1,016</u>
Total Project Cost.	68,745

Applicant also represents that the United States Government has indicated interest in having it serve natural gas to the Camp Irwin Military Reservation. Applicant proposes to build a 4 1/2-inch O.D. welded steel pipeline from its present main extension in Yermo to Camp Irwin. Applicant states that the proposed pipeline to Camp Irwin will make it possible for applicant to provide natural gas service, pursuant to its filed rules, in T 10 N, R 1 E; T 10, 11, 12 and 13 N, R 2 E; the northerly half of T 9 N, R 2 E; and T 13 N, R 3 E, collectively referred to as the Camp Irwin territory. Applicant states that the Government has advised that the final preparation and execution of a contract whereby the Government would purchase natural gas from it must await certification of the necessary territory to applicant by the Commission.

The estimated cost of proposed facilities to serve Camp Irwin, Yermo Marine Base and the Community of Yermo is \$298,323. After allocating \$16,820 of the cost of the 6-5/8-inch transmission main to the Yermo Marine Base and the community of Yermo, the remaining cost assignable to Camp Irwin is \$281,503. Applicant's Exhibit No. 6 shows the following itemization of this cost:

23,760 Feet of 6-5/8-inch pipe (Camp Irwin pro rata)	\$ 32,275
148,896 Feet of 4-1/2-inch pipe	227,258
Meter and Regulator Installation	<u>2,000</u>
Sub-Total	261,533
Engineering, Inspection and Administrative Overhead .	5,231
Contingencies @ 5%.	13,338
Interest During Construction (6% for 30 day average)	<u>1,401</u>
Total Cost to Camp Irwin.	281,503

Proposed Rates for Service

Applicant proposes to charge for gas service in the requested Hinkley territory at the same rates which it now charges under its presently-filed rate schedules, which rates are in effect in the adjacent Barstow and Victorville service areas. It estimates the revenue from domestic and small commercial service at \$1.07 per Mcf and from gas engine service at 55 cents per Mcf.

Applicant proposes to charge for gas service in the Camp Irwin territory at the same rates which it now charges under its presently-filed rate schedules in its adjacent Barstow service area. It proposes to charge the government for gas service at Camp Irwin at a compensatory rate to be determined by negotiation; however, for the purpose of making a revenue estimate applicant assumed a uniform rate of 54.66 cents per Mcf.

At present applicant does not have a regular gas engine schedule, those engines presently being served being on the

interruptible schedule. Applicant's proposed gas engine schedule is set forth in Exhibit No. 9.

Economics of Hinkley Construction

Applicant estimates that it will serve 100 domestic customers and 15 gas engine customers during the first year of operation in the Hinkley District for a total annual revenue of \$31,005. During the third year the domestic customers are estimated at 165 and gas engine at 25 for a total revenue of \$51,515. After deducting the estimated expenses, applicant computes a rate of return of 5.3 per cent in the first year and 6.5 per cent in the third year. These results are set forth in Exhibit No. 8 and are summarized below:

	<u>First Year</u>	<u>Third Year</u>
Revenue:		
Domestic	\$ 9,621	\$ 15,875
Gas Engine	21,384	35,640
Total	<u>31,005</u>	<u>51,515</u>
Expenses:		
Cost of Gas	18,881	31,409
Transmission and Distribution	1,333	2,423
Customers Acct'g. and Collecting	607	1,104
Sales Promotion	298	542
Administrative and General	411	747
Depreciation	2,062	2,670
Taxes:		
Federal Income	1,668	3,957
Other	2,106	2,990
Total Expenses	<u>27,366</u>	<u>45,842</u>
Net Revenue	3,639	5,673
Rate Base	68,714	86,794
Rate of Return	5.3%	6.5%

Economics of Camp Irwin Load

Applicant estimates that it will sell 171,000 Mcf of natural gas per year to the Government. Applicant now sells Liquefied Petroleum Gas on a non-utility basis to the Government for Camp Irwin. It estimates that replacing the L.P.G. service with natural gas will account for 110,000 Mcf of this total gas. The Camp hospital now uses fuel oil for heating, equivalent to 26,000 Mcf of

gas annually. The remaining 35,000 Mcf is estimated to be used by the Capehart Housing Project at the Camp.

The cost of the extension assignable to Camp Irwin of \$281,503 is to be paid for by the Government by means of a surcharge of 23 cents per Mcf of gas sold to Camp Irwin. Applicant's Exhibit No. 10 indicates that the cost of the extension will be paid for in about seven years and interest to be paid by the Government to applicant during the payout period will amount to \$60,461.

Applicant's statement of revenue and expenses as shown in Exhibit No. 12 follows:

Revenue	\$ 93,469
Expenses	
Cost of Gas	66,770
Operating Expenses	2,000
Taxes:	
Income	9,841
Other	6,193
Depreciation	8,445
	<u>93,249</u>
Net Revenue	220
Net Interest Income	8,190
Net Income	8,410

The net interest income of \$8,190 shown in the above tabulation is the difference between 6 per cent interest on the cost of the extension of \$281,503, amounting to \$16,890, and bond interest amounting to \$8,500 plus amortization of \$200.

By Exhibit No. 14 applicant estimates that the Hinkley addition will improve its system rate of return from 4.97 per cent to 5.1 per cent and the addition of the Camp Irwin load will further improve this system rate of return to 5.29 per cent.

Position of Pacific Gas and Electric Company

Pacific appeared at the hearing as a protestant to certain of applicant's requests. It did not object to service by the applicant in the Hinkley area (if the Commission so authorizes), but took

the position that the development thus far in Hinkley did not warrant it in extending service. Such area is within the 10-mile strip either side of the Texas transmission line that has been certificated to Pacific. It presented some summaries of its computations indicating negative rates of return from the Hinkley area if its regular G-6 rate schedule is used. If special rate schedule G-6.3 is used the estimated earning is a positive rate of return after three years of 3 per cent.

Pacific opposed the applicant's request to withdraw and extinguish Pacific's certificate of public convenience and necessity in the townships and area which the applicant seeks to serve. Pacific pointed out that under the applicant's purchased gas contract, certain large loads may develop in this area that the applicant is not in position to serve. Pacific also pointed out that applicant's proposed service to Camp Irwin is outside of the territory which applicant is entitled to serve under its resale gas purchase agreement. Pacific indicated that these difficulties could be settled if the applicant would negotiate a revised and exclusive gas purchase agreement.

Franchises

Applicant states that the territory concerning which a certificate is requested is included within that territory described in Ordinances Nos. 505 and 794 of the County of San Bernardino. A copy of Franchise Ordinance No. 505 was attached as Exhibit A in Application No. 36457. A copy of Ordinance No. 794 is attached to this application and marked Exhibit A.

Ordinance No. 794 is a county-wide franchise covering installation, maintenance and use of pipes and appurtenances in so many and such parts of the public roads in the county as the applicant may from time to time elect to use for the purpose of conveying

and distributing gas. The term of the franchise is indeterminate. ✓
It provides for 2 per cent payment to the county of the gross annual receipts arising from the use, operation or possession of the franchise. The ordinance was passed by the Board of Supervisors of San Bernardino County on August 6, 1956.

Findings and Conclusions

The record in this proceeding shows that the applicant has sufficient gas available to it under its purchase contract with Pacific to serve both the Hinkley territory and the Camp Irwin territory and that its gas supply will be adequate for some years in the future. Applicant will be expected to make arrangements to obtain adequate supplies of gas, on a timely basis, in order to assure continuity of service to its existing and future firm customers.

In providing natural gas service to Camp Irwin, it appears that substantial savings will accrue to the government and that such service will not be a burden to Southwest's existing customers. However, at the present time no contract has been consummated with the government. The primary reason for applicant seeking certification at this time in this area is to enable it to be in a position to furnish service to Camp Irwin if it is successful in negotiating a contract. Accordingly, we find that the authority granted herein with respect to the Camp Irwin territory should not run indefinitely, and, unless applicant has entered into a contract for furnishing service to the government at Camp Irwin within six months after the effective date of the order herein, the authorization herein granted shall terminate.

We find that Pacific's contention that applicant's proposed service to Camp Irwin is outside the territory in which applicant is entitled to serve gas purchased from Pacific under the terms of its Resale Gas Purchase Agreement is not valid in view of

the Commission's statements in Decision No. 51915, dated September 6, 1955, where that agreement was before the Commission for approval.^{1/}

In view of present contractual relationship between Pacific and applicant with respect to Pacific serving loads in excess of 2 million cubic feet per day, we do not believe it to be desirable to withdraw and extinguish Pacific's certificate in the areas requested by applicant. The request of applicant in this respect is herewith denied.

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:

Townships 8, 9 and 10 North, Range 3 West; the easterly halves of Townships 8, 9 and 10 North, Range 4 West, S.B.B. & M., San Bernardino County, California, and in addition, Township 10 North, Range 1 East; Townships 10, 11, 12 and 13 North, Range 2 East; the northerly half of Township 9 North, Range 2 East; and Township 13 North, Range 3 East, S.B.B. & M., San Bernardino County, California, subject to the limitations and conditions set forth in the order herein.

^{1/} The Commission stated in Decision No. 51915: "The agreement contains, in Section 14, a recognition of the fact that it shall at all times be subject to such changes or modifications by the Commission as it may from time to time direct in the exercise of its jurisdiction. In authorizing the carrying out of this contract, therefore, we put the parties on notice that such authorization cannot lawfully, and is not intended to, limit this Commission in any way in its authority in the future to authorize any service by Southwest which may be justified by public convenience and necessity or which may be provided by law, regardless of any apparent prohibitions of such service by the terms of the contract herein authorized. The Commission withholds its approval of any such apparent prohibition."

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 franchises 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 hereof 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:

1. 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 and require the exercise of the right, privilege and franchise granted to it by Ordinance No. 794 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:

Townships 8, 9 and 10 North, Range 3 West; the easterly halves of Townships 8, 9 and 10 North, Range 4 West, S.B.B. & M., San Bernardino County.

2. 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 and require the exercise of the right, privilege and franchise granted to it by Ordinance No. 794 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 10 North, Range 1 East; Townships 10, 11, 12 and 13 North, Range 2 East; the northerly half of Township 9 North, Range 2 East; and Township 13 North, Range 3 East, S.B.B. & M., San Bernardino County, California;

provided that Southwest Gas Corporation has within six months after the effective date hereof filed with this Commission a copy of a contract between it and the government for service to be rendered at Camp Irwin containing rates and terms substantially in accord with those set forth in this proceeding.

3. That applicant may deviate from its filed Rule and Regulation No. 15 in accordance with Section (C) (V) thereof in order to install the mains and serve the customers as contemplated in the Hinkley area.

4. That extensions to serve any new customers, other than those contemplated in this application, shall comply with applicant's Rule and Regulation No. 15.

5. 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 for the Hinkley area, and for the Camp Irwin area.

6. Applicant shall segregate for each area its capital investment and operating expenses within the Hinkley area and within the Camp Irwin area 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.

7. Applicant is authorized to sell gas at its filed rates presently effective in Victorville and Barstow, in the Hinkley and Camp Irwin areas, and to provide service to the government under the terms and conditions it has proposed and shall so revise its

existing tariffs and refile the same, in accordance with the provisions of General Order No. 96, prior to the time service is first instituted. Such filing shall be effective on not less than five days' notice to the Commission and the public.

8. Applicant is authorized to file a new tariff for gas engine service substantially as proposed in Exhibit No. 9 and make the same effective pursuant to General Order No. 96, for service prior to the date service first is furnished in the Hinkley area. Such filing shall be effective on not less than five days' notice to the Commission and the public.

IT IS FURTHER ORDERED:

1. That Southwest Gas Corporation shall not exercise said franchise for the purpose of supplying gas in those parts or portions of San Bernardino County 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.

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.

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 16th day of April, 1957.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners