

**ORIGINAL**

Decision No. 55074

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 Hesperia, County of )  
 San Bernardino, California. )

Application No. 38885

W. M. Laub and C. H. McCrea, for applicant.  
Walter E. Bailey, for California Electric Power  
 Company; J. J. Deuel and Bert Buzzini, for  
 California Farm Bureau Federation; Capt. John  
W. Kalnas, for Rimcock Estates-Apple Valley;  
Edward R. Curley and Wilbur F. Gregg in  
 propria personae; interested parties.  
Robert O. Randall, for the Commission's staff.

O P I N I O N

Applicant's Request

Southwest Gas Corporation, engaged in the business of selling and distributing natural gas in certain portions of San Bernardino County as a public utility, filed the above-entitled application on March 4, 1957, requesting that the Commission duly give and make its order:

1. Granting and issuing a certificate of public convenience and necessity authorizing the applicant to exercise franchise rights in Townships 4 North, Ranges 4 and 5 West, S.B.B. & M., and to construct, operate and maintain the natural gas system and to provide gas service substantially as described in this application;

2. Granting applicant authority to deviate from its filed Rule and Regulation in accordance with Section G thereof in order to install the mains and serve the customers as contemplated in this application.

A map showing the proposed distribution line extension is set forth in Exhibit No. 2 in this proceeding.

Public Hearing

After due notice, a public hearing was held upon this application on April 24, 1957, in Victorville before Examiner Manley W. Edwards. Applicant presented seven exhibits and testimony by three witnesses in support of its application. The Commission staff, represented by a gas engineer, cross-examined applicant's witnesses for the purpose of developing a full record to aid the Commission in deciding this matter. The representative of the California Farm Bureau Federation also cross-examined the witnesses.

Four prospective customers living in Apple Valley appeared and sought information as to why the applicant would undertake a main extension to Hesperia when there were many customers unserved in Apple Valley. The reply of one of applicant's witnesses was that where customers in Apple Valley will advance a deposit for extension footage in excess of 100 feet, in accordance with the extension rule, service normally can be furnished within three weeks. He offered to survey the area that appeared to be in difficulty and furnished results of such survey in late-filed Exhibit No. 7. This survey showed the following distances from existing gas mains:

John W. Kalnas .....	781 feet
Russell E. Proctor .....	3,120 "
Wilbur F. Gregg .....	3,080 "
Edward A. Curley .....	1,960 "

The current rate of advance is \$1.00 per foot in excess of 100 feet, which would require very sizeable advances from these customers. These customers should contact the other prospective customers in the area and attempt to work out a project with the applicant that would make gas service available at less unit cost than if just these four customers are served.

Applicant's Position

The Hesperia territory, which is developing rapidly, lies within an area covered by a franchise granted to applicant by the County of San Bernardino, but heretofore the Commission has not granted a certificate for the applicant to exercise the franchise in such territory. Applicant's survey has indicated that sufficient protective load has developed to warrant it in extending its pipes into the area. During the first year it estimates that 300 new customers can be served and by the third year, 518 customers of all classes. Applicant expects to serve natural gas obtained under its resale contract with Pacific Gas and Electric Company dated May 23, 1955. Applicant represents that its supply of gas under this resale contract is adequate to supply the indicated additional load.

Applicant states that the initial construction of the system as proposed in this application will require it to deviate from its filed Rule and Regulation No. 15. However, after the initial construction has been completed, applicant proposes to provide service to the balance of the requested territory strictly in accordance with such rule and in such form as may then be effective. Applicant states that at no time will any deviation from said rule be, or be permitted to become, a burden upon its existing customers.

Proposed Construction

The proposed construction involves some 86,000 feet of pipe at an estimated total cost of \$148,658. Exhibit No. 4 shows the following breakdown of this estimate:

Estimated Cost of Proposed Project to Serve Hesperia

Survey and Mapping .....	\$ 500
43,296 Feet of 4 $\frac{1}{2}$ -Inch O.D. Pipe .....	62,779
42,768 Feet of 2-3/8-Inch O.D. Pipe .....	43,196
2 Railroad Crossings .....	1,600
1 District Regulating Station .....	2,000
300 Service and Meter Installations .....	<u>25,500</u>
Total Direct Cost .....	135,575
Overhead and Contingency at 7 $\frac{1}{2}$ Percent .....	10,168
Interest during Construction (4 Months at 6 Percent) ..	<u>2,915</u>
Total Project Cost .....	\$148,658

Applicant intends to pay the cost of construction required in rendering the proposed service out of its income and such other funds as may be or have been obtained by means of the issuance of such stock, bonds, notes or other evidences of indebtedness as the Commission has authorized, or shall hereafter, upon proper application, authorize for that purpose.

Proposed Rates for Service

Applicant proposes to charge for gas service in the requested Hesperia area at the same rates which it now charges under its presently filed rate schedules, which rates are in effect in the adjacent Victorville and Apple Valley area. Applicant estimates the revenue from domestic and small commercial service at \$1.05 per Mcf, from regular commercial service at \$0.70 per Mcf and from gas engine service at \$0.55 per Mcf. The estimated customers, sales and revenues for the first and third year as set forth in Exhibit No. 5 follow:

<u>Class of Service</u>	<u>Number of Customers</u>	<u>Sales Mcf</u>	<u>Revenue</u>
First Year:			
Domestic and Small Coml.	289	28,900	\$30,345
Commercial	5	10,363	7,254
Gas Engine	6	15,552	8,554
Total	300	54,815	46,153
Third Year:			
Domestic and Small Coml.	499	49,900	\$52,395
Commercial	10	20,726	14,508
Gas Engine	9	23,328	12,830
Total	518	93,954	79,733

Economics of Project

Applicant estimates that during the first year it will earn a return of 4.6 percent on its investment in this project and during the third year 5.6 percent under the rate levels presently effective in Victorville and Apple Valley. The method used by applicant to estimate and compute these returns is shown in Exhibit No. 5 and is summarized below:

	<u>First Year</u>	<u>Third Year</u>
REVENUE		
Domestic and Small Commercial	\$ 30,345	\$ 52,395
Commercial	7,254	14,508
Gas Engine	8,554	12,830
Total Revenue	46,153	79,733
EXPENSES		
Cost of Gas Purchased	21,615	37,049
Transmission and Distribution	3,042	5,776
Customers' Accounting and Collecting	1,431	2,720
Sales Promotion Expense	1,209	2,295
Administrative and General	1,044	1,984
Depreciation	4,460	6,095
Taxes, other than Federal Income	4,077	6,117
Federal Income Taxes	2,431	6,873
Total Expenses	39,309	68,909
NET REVENUE	6,844	10,824
RATE BASE	147,928	193,373
RATE OF RETURN	4.6%	5.6%

By Exhibit No. 6 applicant estimates that by the end of the third year the Hesperia extension will improve its system rate of return from 4.72 percent to 4.82 percent assuming future system earnings at the level experienced for the 12 months ended December 31, 1956.

Franchise and Competition

Applicant now desires authority to exercise the county franchise it presently holds under Ordinance No. 794 of the County of San Bernardino, California, in Townships 4 North, Ranges 4 and 5 West, S.B.B. & M. within San Bernardino County. Applicant states that a certified copy of franchise Ordinance No. 794 was attached as Exhibit A in its Application No. 38678, and by reference incorporates such franchise in this record.

Applicant represents that no other public utility, corporation, person or entity, public or private, has been certificated by the Commission to render the type of service which it proposes to render in this area, and that it would not compete with any other public utility in this area. Applicant mentions that the Pacific Gas and Electric Company is in possession of certain franchise rights in San Bernardino County and refers to County Ordinance No. 760 adopted on or about April 4, 1955. Applicant further states its belief that other public utilities, corporations, persons and/or entities are also in possession of nonexclusive franchises for the same purposes granted by the Board of Supervisors of the County of San Bernardino.

Findings and Conclusions

The record indicates that applicant has sufficient gas available under its resale purchase contract with the Pacific Gas

and Electric Company to serve the proposed Hesperia load and that its gas supply will be adequate for a few years in the future.<sup>1</sup> After considering applicant's request the Commission finds and concludes that the Hesperia area should develop and that the proposed construction is warranted; that public convenience and necessity require the construction, use, operation and maintenance of gas pipelines and the exercise of franchise rights in Townships 4 North, Ranges 4 and 5 West, S.B.B. & M. subject to the limitations and conditions set forth in the order herein.

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, 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

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<sup>1</sup> While this area is outside of the area mentioned in the applicant's resale contract with Pacific Gas and Electric Company, it is the Commission's understanding that Pacific does not oppose the extension to serve the Hesperia area.

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 line through and to provide service to customers in Townships 4 North, Ranges 4 and 5 West, S.B.B. & M. San Bernardino County.

2. That applicant may deviate from its filed Rule and Regulation No. 15 in accordance with Section (G)(v) thereof in order to install the mains and serve the customers as contemplated in the Hesperia area.

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

4. That applicant, within six months following the date of completion of this project, shall file with this Commission a detailed statement of the capital costs and related facilities for the Hesperia area.

5. That applicant shall segregate its capital investment and operating expenses within the Hesperia 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.

6. That applicant is authorized to sell gas at its filed rates presently effective or at such level as may be effective at the time service is commenced and shall so revise its 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 become effective on not less than five days' notice to the Commission and the public.

IT IS FURTHER ORDERED that the limitations placed by the "Further Ordering" paragraphs of Decision No. 54842 under Application No. 38678 are hereby amended to exclude the Hesperia area, herein authorized, from such limitations.

The authorizations 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 4th day of JUNE, 1957.

[Signature]  
President

[Signature]

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Commissioners