

ORIGINALDecision No. 56626

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of AL TAHOE GAS COMPANY,) }
 a corporation, for a certificate of }
 public convenience and necessity to } Application No. 39556
 operate a gas utility; to establish }
 rates; and for an order authorizing }
 the issuance of its shares for cash.)

Appearances and witnesses are listed in Appendix B

O P I N I O NApplicant's Request

Al Tahoe Gas Company, a California corporation, by the above-entitled application filed November 13, 1957, requests a certificate of public convenience and necessity authorizing it to operate a gas utility within the service area defined by the red lines on Exhibit E attached to the application. ^{1/} Applicant proposes to charge the rates and adopt the rules set forth in Exhibit F attached to the application, as amended by Exhibit No. 7. Applicant also is requesting permission to issue and sell 100,000 shares of its capital stock of the par value of \$1.00 per share.

Public Hearing

After due notice, public hearing was held upon this application before Examiner Manley W. Edwards on February 24 and 25, 1958 in Placerville, California. Applicant presented 11 exhibits and testimony by three witnesses in support of the application. Included in these exhibits was Exhibit No. 2, consisting of some

^{1/} The area included is adjacent to the south shore of Lake Tahoe in El Dorado County and encompasses an area of approximately 19 square miles.

seventy letters from persons residing in or near the Al Tahoe Subdivision indicating interest in the applicant's proposed gas system.

Prior to the hearing the Commission received some two hundred or more letters from residents or property owners in the Al Tahoe Subdivision in protest to the proposed location of the gas storage tank. Also, some questioned the need for a piped gas system in the area, stating that adequate gas service was being obtained from liquefied petroleum gas (LPG) delivered to each customer's own tank. Two appearances requested that these letters of protest be considered as part of the evidence and given equal weight to those presented by applicant in Exhibit No. 2. Such request is granted and the letters will be considered a part of the evidence in this matter.

The protestants presented four exhibits in opposition to the proposed utility, stating that an investigation from the standpoint of economic feasibility and the intentions and desires of the potential customers of such utility should result in the denying to applicant of any and all franchises or permits required by county and state laws. Closing statements have been filed and the matter now is ready for decision.

Proposed System

Applicant proposes to install 2-inch and 4-inch distribution pipelines in the streets of Al Tahoe Subdivision and an 8-inch transmission and/or feeder pipeline from a plant site near the southwest corner of the subdivision on Lot No. 54, Block 80. A 30,000-gallon storage tank and vaporizer will be used to supply proposed gas at a pressure of 5 pounds per square inch to the 8-inch main at the plant site. The exact location of the plant site has not been settled as it is contingent upon applicant's obtaining a zoning permit from county authorities.

In Exhibit E applicant showed a distribution pipeline system only in the Al Tahoe Subdivision area, but in oral testimony indicated that requests from subdividers with property approximately one-half mile east of the Al Tahoe Subdivision have been made for a piped distribution system. Such subdividers offer free sites for location of gas storage tanks.

Estimated Cost of System

Applicant estimates that it will serve 325 customers during its first year of operation and 675 during its third year. A rough cost breakdown of applicant's estimated system to serve 325 customers follows:

	<u>Installed Prices</u>	
	<u>Unit Price</u>	<u>Total</u>
6,650 ft. of 8-5/8-inch pipe @.....	\$ 3.75	\$ 24,937.50
11,425 ft. of 4-1/2-inch pipe @.....	2.60	29,705.00
38,000 ft. of 2-inch pipe @.....	1.29	49,020.00
3,000 ft. of 1-inch pipe @.....	1.04	3,120.00
30,000 ft. of 3/4-inch pipe @.....	.99	29,700.00
325 meter sets @.....	30.00	9,750.00
Valves, flanges, fittings, etc. installed..		15,005.05
30,000-gallon tank and vaporizers.....		18,927.39
Sales tax - 4% on materials.....		3,732.68
Cost of tank site.....		15,000.00
Total		<u>\$198,897.62</u>

In addition to the above capital investment there are certain costs involved in organization, transportation equipment, office equipment, material and supplies and working cash capital in organizing and running a gas utility system. Applicant's estimated rate base for 325 customers and for 675 customers follows:

Estimated Rate Bases

	<u>Number of Customers</u>	
	<u>325</u>	<u>675</u>
Organization	\$ 2,530.00	\$ 2,530.00
Distribution System	198,897.62	252,414.22
Transportation Equipment	17,000.00	17,000.00
Office Equipment	3,000.00	3,000.00
Materials and Supplies	1,500.00	3,000.00
Working Cash	6,950.00	10,479.00
Total	<u>\$229,877.62</u>	<u>\$288,423.22</u>
Use	\$229,900.00	\$288,500.00

Financing of System

Applicant proposes to issue to C. Dieterich 25,000 shares and to John E. Cavanaugh 75,000 shares of its capital stock, having a par value of \$1.00 per share for cash in the amount of \$100,000.00. Applicant estimates that the initial \$100,000.00 will be sufficient to install the gas tank and some of the main feeder and distribution lines to start serving customers located nearest to the tank. The installation of additional pipe to cover the entire area in Al Tahoe Subdivision as shown on Exhibit E will depend upon the location and numbers of customers requesting gas service.

Applicant expects that only 45 percent of the residences and commercial establishments in the area will take piped gas service and that the other 55 percent will continue to purchase liquefied petroleum gas in their own tanks. Applicant will extend service after its initial feeder and distribution mains are installed in accordance with its proposed extension rule, Rule No. 15, Exhibit No. 7. In general this rule provides for a free main extension equal to 5 times the estimated annual revenue and an advance for any additional footage, beyond the free length, which advance will be subject to refund over a period of ten years as new customers are added to the extension. If the initial \$100,000.00 is not sufficient to install and start the plant operating, applicant expects to be

able to obtain a short-term bank loan pending sale of more stock. Applicant is aware that it must secure further Commission authorization for sale of any additional stock or for long-term financing.

Proposed Rates

Applicant's proposed general service rates follow:

	<u>Per Meter per Month</u>
First 100 cubic feet or less	\$2.00
Next 400 cubic feet, per 100 cubic feet	.60
Next 500 cubic feet, per 100 cubic feet	.54
Over 1,000 cubic feet, per 100 cubic feet	.48

The above rate would be subject to a \$2.00 monthly minimum charge. Applicant indicated its desire to keep the rates competitive with the cost of liquefied petroleum gas delivered to a customer's own tank but did not propose a fuel escalator clause in event the cost of gas changes markedly.

Estimated Operating Results

Applicant's estimated results of operation assuming service to 325 customers and 675 customers on an annual basis follows:

	<u>Number of Customers</u>	
	<u>325</u>	<u>675</u>
Revenue	\$ 60,000	\$127,500
Operating Expenses		
Cost of gas	19,440	42,250
Salaries	15,000	19,800
Operation of Vaporizer	365	730
Miscellaneous (Trans., Ofc. Supplies)	3,180	4,680
Insurance	5,000	6,500
Rent (Office)	1,800	1,800
Depreciation	12,626	14,767
Taxes (Other than income)	6,642	8,248
Income Taxes	-	9,988
Total Expenses	<u>64,053</u>	<u>108,763</u>
Net Revenue	(4,053)	18,737
Rate Base	229,900	288,500
Rate of Return	(1.76%)	6.49%

(Red Figures)

From the above analysis it is apparent that applicant does not expect to show net earnings during the early developmental years of the gas utility operation as a loss of \$4,053 is expected for the first year.

Franchises, Permits, Competition

Applicant represents that no franchise or permits are required for the proposed operation as a utility other than the county zoning permit for location of the gas tank and vaporizer and such permits as may be required for digging up the streets for placement of mains. The South Tahoe Public Utility District opposed granting of the application mainly because of the increased cost of installing sewers in the streets if the gas mains and services were installed prior to installation of sewers. Also, the South Tahoe Public Utility District would prefer that it be the utility authorized to render all types of utility service in the area proposed by the applicant.

Applicant also represented that there was no gas utility presently serving the area in question; however, it did not mention the four LPG distributors now selling "bottled gas" in the area.^{2/}

These LPG distributors attacked the applicant's proposal on the basis that the proposed rates are not competitive and would increase the cost of gas service to the public. For example, a customer using 100 gallons of LPG a month now paying \$19.66 would pay \$23.10 for equivalent gas from the applicant's system; 200 gallons, \$36.19 vs. \$43.49; and 500 gallons, \$85.23 vs. \$105.47 for equivalent gas. Also, these "bottled gas" distributors expressed the fear that the applicant's system would serve only the

^{2/} Cedar Grove Gas Company, Placer Gas Company, J. D. Gay Gas Company and Gebbe & Kliebe Gas Company.

most profitable part of the business in the denser built-up areas and leave the unprofitable fringe business to them. They contended that they could not survive on the fringe business without higher rates, so consequently the granting of the application would raise the cost of gas to the public all along the line.

Proposed Rules

Applicant's proposed rules under which service will be rendered are generally acceptable to the Commission except for the following items which were discussed at the hearing:

Rule No. 2 - Add a table of standard barometric pressures of various altitude zones for use with high pressure gas displacement meters.

Rule No. 4 - Reduce contract period from 5 years to 3 years.

Rule No. 15 - Provide for 10-year refund period instead of the proposed 5-year period.

Rule No. 19 - Covering customers' equipment and installations: Omit the fourth sentence in paragraph A and delete paragraphs B, D and E.

While the elimination of Paragraph E in Rule No. 19 was not agreed to at the hearing, in the Commission's opinion Paragraph E in Rule No. 16 adequately covers this subject. In filing the rules the words "and Regulations" should be deleted.

Findings and Conclusions

With regard to the showing by the protestants as to the fact that the rates proposed are not competitive, it should be pointed out that such comparisons did not include the annual or monthly carrying charges on the LPG customers' tanks and equipment. When these charges are added to the cost of the bottled gas, and when the convenience and improved safety to the average customer of not having to maintain his own tanks is considered, it is probable that applicant's proposed rate is fairly competitive. Furthermore,

if a fuel price escalator clause is inserted in the rate, the competitive relationship will be better maintained, even if the cost of gas fluctuates considerably.

In the Commission's opinion the people in the Al Tahoe Subdivision and the immediately adjacent area are entitled to public utility gas service from a regulated public utility. Here we have an applicant willing to risk capital to provide a more convenient and, in the Commission's opinion, a safer gas system than where each customer provides his own tank. The protestant LPG distributors long ago could have become public utilities and obtained certificates of public convenience and necessity and dedicated themselves to serving the public in the area. However, none heretofore has seen fit to so dedicate its operations. Therefore we do not find merit in the position taken by the non-utility protestant LPG distributors.

The position of the South Tahoe Public Utility District appears more reasonable, but it apparently does not have the financial means to furnish both sewer service and gas service at the same time. The reason given for denial of the application of causing extra cost of installing sewer mains is too minor to be given much weight in the Commission's opinion. The record shows that initially only a small part of the tract will be served and the utility district should have ample time to install its sewers over most of the tract before gas mains interfere.

Some question was raised as to the \$15,000 figure set forth as the value of Lot. No. 54, Block 80, which lot applicant desires to use as the tank site. Appraisals submitted by real estate men indicated a value in the range of \$5,000 to \$17,500 for this particular lot. The \$5,000 figure is a comparable price of adjacent but smaller lots in the vicinity; however, the area of Lot No. 54

is considerably greater than that of the adjacent lots. An intermediate figure of \$12,000 appears reasonable for rate-making purposes at this time, but applicant might not be permitted to use this lot by the county zoning requirements, and some other price for a tank site might be reasonable.

The Commission hereby finds that public convenience and necessity will require the construction and operation of a public utility gas system by Al Tahoe Gas Company in El Dorado County within the Al Tahoe Subdivision. Applicant's request to certificate a much larger area than Al Tahoe Subdivision, that is, within the area shown on Exhibit E attached to the application, is a considerably larger area than warranted by the planned construction at this time. As business develops, applicant can extend out into this larger area in the ordinary course of business as contemplated by Section 1001 of the Public Utilities Code.

The Commission is of the opinion that the money, property or labor to be procured or paid for by the issuance of 100,000 shares of its capital stock, having a par value of \$1.00 per share for cash in the amount of \$100,000.00, is reasonably required by the Al Tahoe Gas Company for the purposes of purchasing and installing a tank, tank site and some of the main feeder and distribution lines to start serving customers located nearest to the tank site, which purposes are not in whole or in part reasonably chargeable to operating expenses or to income, and that this application should be granted as hereinafter provided.

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 this certificate of public convenience and necessity or the right to own, operate

or enjoy such certificate of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State as the consideration for the issuance of such certificate of public convenience and necessity or right.

Applicant does not expect to earn a return during the early developmental stage of the project under the rates proposed. In the Commission's opinion the proposed level of rates is reasonable, provided a competitive fuel clause is inserted. Such clause will be authorized. While many residents questioned the present need for a gas utility system, justification for the system rests primarily on future growth anticipated in the area. If the area grows as anticipated there should be ample business for this utility as well as for the LPG distributors.

O R D E R

The above-entitled application having been considered, public hearing thereon having been held, the Commission being fully informed and having found that public convenience and necessity require the proposed gas system; therefore,

IT IS ORDERED that:

1. A certificate of public convenience and necessity be and it is hereby granted Al Tahoe Gas Company to construct and operate a public utility gas system within the Al Tahoe Subdivision, El Dorado County, California.

2: After the effective date hereof and on or before June 30, 1958, applicant may issue and sell 100,000 shares of its capital stock having a par value of \$1.00 per share for cash in the amount of \$100,000.00 and use the proceeds for the purposes of purchasing and installing a gas plant as hereinbefore set forth in the foregoing opinion.

3. Applicant shall file with the Commission on or before September 30, 1958 a statement showing the number of shares sold under the authority herein granted, the names of the persons to whom said shares were sold and the number sold to each, and a detailed statement of the use to which the proceeds of the sale of such stock has been put.

4. Applicant is authorized to file in quadruplicate the rates set forth in Appendix A attached to this order, to be effective after five days' notice to this Commission and to the public on or before the date service is first rendered to the public, together with rules as discussed in the opinion herein and tariff service area map acceptable to this Commission in accordance with the requirements of General Order No. 96.

5. Applicant shall file, within forty days after the system is placed in operation, four copies of a comprehensive map drawn to an indicated scale not smaller than 200 feet to the inch, delineating by appropriate markings the tracts of land and area served; the main gas tank and distribution facilities; and the location of the various properties of applicant.

6. Applicant shall determine the accruals for depreciation by dividing the original cost of plant less estimated future net salvage less depreciation reserve, by the estimated remaining life of the plant. Applicant shall review the accruals as of January 1st of the year following the date service is first rendered to the public under the rates and rules authorized herein and thereafter when major changes in utility plant composition occur for each plant account and at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.

APPENDIX A
Page 1 of 2

SCHEDULE NO. G-80

GENERAL SERVICEAPPLICABILITY

Applicable to propane gas service to all consumers for residential, commercial and other use.

TERRITORY

Al Tahoe Subdivision and adjacent territory, South Shore Lake Tahoe, El Dorado County.

RATES

<u>Commodity Charge:</u>	<u>Per Meter per Month</u>	
	<u>Base Rates</u>	<u>Effective Rates</u>
First 100 cu. ft. or less	\$2.00	\$2.00
Next 400 cu. ft., per 100 cu. ft.	.60	.60
Next 500 cu. ft., per 100 cu. ft.	.54	.54
Over 1,000 cu. ft., per 100 cu. ft.	.48	.48

The above effective rates are based on cost of propane of 9.83 cents per gallon and are determined from the base rates as set forth under Special Conditions.

	<u>Per Meter per Month</u>
Minimum Charge	\$2.00

SPECIAL CONDITIONS

1. For gas used in excess of 100 cu. ft. per month, the rates in effect at any time vary with the average cost of propane delivered at all plants generating gas served under this schedule and shall be determined from the above base rates by adding or deducting respectively 1.0 cent for each 0.41 cent that such cost of propane is above or below 9.83 cents per gallon. Changes in rates are to be to the nearest 5/10 cent.

SCHEDULE NO. G-80

GENERAL SERVICE

APPLICABILITY (Cont'd.)

2. When a change in the cost of propane occurs, the Company shall submit to the Public Utilities Commission, within a period of fifteen days, an Advice Letter and appropriate tariff schedules setting forth the new effective rates and accompanied by an affidavit of such change in the cost of propane. The new rate shall be effective on all regular meter readings taken on and after the thirtieth day following such change in the cost of propane.

3. The phrase "Cost of propane" as used in this schedule is applied to propane purchased from the supplier and shall not exceed the posted price per gallon at the refinery exclusive of State and Federal Taxes, plus the charges for trucking and delivery based on the minimum freight rates established by this Commission.

APPENDIX B

LIST OF APPEARANCES

For Applicant: Sherman C. Wilke.

Protestants: Deasey & Deasey, by Pierce J. Deasey and James E. Deasey, for Cedar Grove Gas Company and J. D. Gay; Earle F. Pankost, for South Tahoe Public Utility District; Carl B. Munck, for Al Tahoe Property Owners Improvement Association; Aram Harootunian, Mrs. Richard Codman, Irving H. Bliss, Robert C. Rosenberg, Theodore R. Pursey and Bonnie R. Pursey, in propria personae.

Interested Parties: Lee Warren, for Bijou Center Market, Inc.; F. M. Brack, for Tenner Plumbing Company.

Spectator: H. I. Nezarek, in propria persona.

Commission Staff: Charles R. Currier and Sidney J. Webb.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by: John E. Cavanaugh, Clarence Dieterich, Charles Cavanaugh.

Evidence was presented on behalf of the protestants by: Earle F. Pankost, Mrs. Richard Codman, Wilbur Childers, John D. Gay and R. E. Dunn.