

ORIGINAL

Decision No. 59592

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of LAKE COUNTY UTILITY)
COMPANY, a corporation, for a cer-)
tificate of public convenience and)
necessity, to operate a gas util-)
ity, to establish rates; and for)
an order authorizing the issuance)
of its shares for cash.)

Application No. 41581

A. B. Broadus, for applicant.
Sidney J. Webb and Charles R. Currier, ✓
for the Commission staff.

O P I N I O N

Applicant's Request

Lake County Utility Company, by the above-entitled application filed on October 16, 1959, seeks an order: (1) issuing to applicant a certificate of public convenience and necessity to construct and operate a public utility system for the distribution and sale of gas in the Lakeshore Village Subdivision, Lake County, (2) authorizing applicant to issue and sell 8,810 shares of its capital stock having a par value of \$10 per share for cash in the amount of \$88,100 for the purpose of constructing and operating a gas utility business, and (3) establishing applicant's rates as set forth in Exhibit D attached to the application.

Public Hearing

After due notice, public hearing was held before Examiner William W. Dunlop on December 9, 1959, in Clear Lake Highlands. Applicant presented exhibits and testimony through two witnesses in support of its requests.

The Commission staff took an active part in the proceeding and cross-examined applicant's witnesses to develop a complete

record. No protest to the granting of the application was received.

Resolution No. 59, dated June 23, 1959, of the Board of Supervisors of Lake County favoring the granting of the application was filed at the hearing as Item B. Granting of the application was urged by the developer of Lakeshore Village Subdivision. At the conclusion of the day's hearing, the matter was taken under submission subject to the receipt of late-filed Exhibit No. 5, within 10 days. Such exhibit now having been filed, the matter is ready for decision.

Proposed Service Area

Applicant's proposed service area is Lakeshore Village Subdivision, Clear Lake Highlands in Lake County as shown on Exhibit No. 2 filed in this proceeding. This subdivision includes approximately 200 acres which the real estate developer anticipates will be fully developed within four years and then contain approximately 325 inland homes, 125 water-front homes, a community shopping center, hotel, church, school, marina and other commercial establishments. The developer has longer range plans which, according to the testimony, contemplates development of a total of 1200 acres with 4500 homes in 12 to 15 years.

The testimony reveals that 41 homes in the subdivision are under construction or completed, 9 are occupied and, within the next 30 days, 33 more homes will be under construction. The homes range in price from \$11,700 to \$17,950 and are approved for FHA financing.

Proposed System

The proposed gas system includes a 20,000-gallon storage tank and vaporizer, welded mains ranging in diameter from 1½ inches to 5 inches, service pipe, valves, fittings, meters, regulators and related equipment. Pressure in the mains will approximate 20 pounds per square inch and at the meters will approximate 11 inches of

water column. Applicant proposes to purchase its LP gas from an affiliate, California Liquid Gas Corp. The heating value proposed is 2,500 Btu per cubic foot at 1,320 feet elevation. Exhibit No. 3 shows the proposed storage tank and vaporizer site and the size and location of gas mains and valves to serve the portion of the subdivision now under development.

It appears that the developer has installed the gas mains in the initial development to applicant's specifications and that applicant plans to pay the developer the actual cost for such installation.

Estimated Cost of System

Applicant estimates that its proposed gas system to serve approximately 500 customers in its proposed service area will cost approximately \$88,100 segregated as follows:

<u>Item</u>	<u>Amount</u>
Plant site	\$ 2,500
Storage tanks and vaporizer	12,000
Pipe, valves and fittings	17,500
Installation cost of mains	26,000
Meters, regulators and fittings	15,000
Organizational expense	2,000
Service truck and tools	3,500
Office equipment and supplies	1,000
Sales tax (4% of \$50,000)	2,000
One month's cost of gas	3,100
Working capital	3,500
Total Cost	88,100

Financing of System

To finance the cost of constructing the gas facilities that are estimated to be required to provide gas service throughout the subdivision, applicant proposes to issue to an affiliated company, Lake County Gas Company, 8,810 shares of its capital stock, ✓ having a par value of \$88,100. Applicant estimates that approximately \$35,000 would be required the first year and the entire \$88,100 amount over perhaps four years.

Lake County Gas Company is a liquefied petroleum gas distributor selling "bottled gas" in and around Clear Lake Highlands

and is a subsidiary of California Liquid Gas Corp., a distributor of LP gas and appliances in northern California. The principal stockholder of California Liquid Gas Corp., according to the testimony, is also a director and officer of applicant and of Lake County Gas Co.

Proposed Rates

Applicant's proposed general service rates follow:

	<u>Per Meter</u>	<u>Per Month</u>
	<u>Basic</u>	<u>Effective</u>
	<u>Rates</u>	<u>Rates</u>
First 200 cubic feet	\$2.00	\$2.00
Next 400 cubic feet, per 100 cubic feet	.80	.80
Next 8,400 cubic feet, per 100 cubic feet	.44	.44
Next 11,000 cubic feet, per 100 cubic feet	.42	.42
Over 20,000 cubic feet, per 100 cubic feet	.38	.38

The above proposed effective rates are based upon a cost of \$0.0938 per gallon of propane and are subject to a \$2 monthly minimum charge. Applicant proposes a fuel escalator clause in the event the cost of gas changes markedly. It is applicant's position that the above rates are competitive with rates for other fuels in the area.

Estimated Operating Results

The estimated results of operations, as presented by applicant, assuming service to 500 customers on an annual basis follows:

<u>Item</u>	<u>Amount for</u> <u>500 Customers</u>
Revenue (400,000 gallons at \$0.18 per gallon)	\$72,000
Operating Expenses	
Cost of gas	
(400,000 gallons at \$0.0938 per gallon)	37,520
Salaries	16,200
Plant upkeep	360
Travel, advertising, sales	1,100
Rent (office)	900
Utilities,	
legal, accounting and office expenses	1,080
Insurance	1,200
Depreciation	5,433
Taxes, other than income	1,200
Income taxes	2,523
Total Expenses	67,516
Net Revenue	4,484
Rate Base	88,100
Rate of Return	5.1%

Franchises, Permits, Competition

Applicant represents that no franchise or permits are required for the proposed operation as a utility other than the county and Civil Aeronautics Administration permits for the location of the gas tank and vaporizer and such permits as may be required for digging up the streets for placement of mains.

It appears there is no public utility gas corporation presently serving the area in question, although applicant did mention four LP gas distributors now selling "bottled gas" in the area.¹

Findings and Conclusions

Based upon careful consideration of the evidence in this proceeding, the Commission hereby finds that public convenience and necessity will require the construction and operation of a public utility gas system by Lake County Utility Company in Lake County within the Lakeshore Village Subdivision.

The Commission is of the opinion that the money, property, or labor to be procured or paid for by the issuance of 8,810 shares of its capital stock, having a par value of \$10 per share for cash in the amount of \$88,100, is reasonably required for the purposes specified herein, and that such 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.

¹ Lake County Gas Company, Anton's Propane Gas Service, Standard Oil Company of California and Shell Oil Company.

In the Commission's opinion the proposed level of rates is reasonable with a cost of propane adjustment clause inserted. However, applicant is placed upon notice that its relationship with the California Liquid Gas Corp. and any other associated companies will be closely scrutinized by this Commission. Applicant will be required by the order herein to file appropriate rules, acceptable to the Commission, governing relations with its customers.

In issuing our order herein, we place applicant and its shareholders on notice that we do not regard the number of shares outstanding, the total par value of the shares nor the dividends paid as measuring the return applicant should be allowed to earn on its investment in plant and that the authorization herein granted is not to be construed as a finding of value of applicant's stock or properties nor as indicative of amounts to be included in a future rate base for the determination of just and reasonable rates.

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 hereby is granted Lake County Utility Company to construct and operate a public utility gas system in the Lakeshore Village Subdivision, Lake County, California.
2. After the effective date hereof and on or before December 31, 1961, applicant may issue and sell 8,810 shares of its capital stock having a par value of \$10 per share for cash in the amount of \$88,100 and use the proceeds for the purposes

hereinbefore set forth in the foregoing opinion and as described in the application.

3. Lake County Utility Company shall file with this Commission monthly reports as required by General Order No. 24-A, which order, in so far as applicable, is hereby made a part of this order.

4. Applicant shall 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 governing customer relations and tariff service area map acceptable to this Commission in accordance with the requirements of General Order No. 96. ✓

5. Applicant shall file, within sixty 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 notify this Commission in writing of the date service is first provided to the public under the rates and rules herein authorized, within ten days thereafter.

7. Applicant shall determine the accruals for depreciation by dividing the original cost of the utility 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 and at intervals of not more than five years. Results of these reviews shall be submitted to this Commission.

8. Lake County Utility Company shall not exercise the authority granted herein for the purpose of supplying gas in those parts or portions of Lake County outside Lakeshore Village Subdivision except through extensions of its system made in the ordinary course of business, as contemplated by Section 1001 of the Public Utilities Code.

9. The Commission may hereafter, by appropriate proceeding and order, limit the authority herein granted to applicant as to extension into any territory within the area shown on Exhibit No. 2 in Lake County within or outside of Lakeshore Village Subdivision not then being served by it.

10. The authorization herein granted will expire if not exercised on or before December 31, 1961.

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

Dated at San Francisco, California, this 1st day of February, 1960.

Evelyn B. Page
President
William L. B. Smith
Matthew J. Smith
E. J. Smith
Theodore J. Smith
Commissioners

APPENDIX A
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Schedule No. G-80

GENERAL SERVICE

APPLICABILITY

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

TERRITORY

Lakeshore Village Subdivision, Clear Lake Highlands, Lake County.

RATES

		<u>Per Meter</u>	<u>Per Month</u>
		<u>Base</u>	<u>Effective</u>
		<u>Rates</u>	<u>Rates</u>
Commodity Charge:			
First	200 cu.ft. or less ✓	\$2.00	\$2.00
Next	400 cu.ft., per 100 cu.ft.80	.80
Next	8,400 cu.ft., per 100 cu.ft.44	.44
Next	11,000 cu.ft., per 100 cu.ft.42	.42
Over	20,000 cu.ft., per 100 cu.ft.38	.38

The above effective rates are based on cost of propane of 9.38 cents per gallon and are determined from the base rates as set forth under Special Conditions.

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

(Continued)

APPENDIX A
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Schedule No. G-80

GENERAL SERVICE
(Continued)

SPECIAL CONDITIONS

1. For gas used in excess of 200 cubic feet 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¢ for each 0.30¢ that such cost of propane is above or below 9.38¢ per gallon. Changes in rates are to be to the nearest 0.5¢.
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.