

ORIGINAL

Decision No. 63193

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
 PACIFIC GAS AND ELECTRIC COMPANY for an
 order (1) granting a certificate of
 public convenience and necessity to
 construct, operate, maintain and use a
 natural gas main extension from appli-
 cant's Main No. 400 and to distribute
 and sell natural gas to and in the City
 of Redding and to Calaveras Cement
 Company near Shasta Lake, Shasta County;
 (2) to distribute and sell natural gas
 for domestic, commercial, industrial,
 and other uses in all places and in
 territory adjacent to Main No. 400;
 (3) to file and make effective natural
 gas tariff schedules applicable to the
 areas involved; (4) to exercise gas
 franchise rights as may be necessary;
 and (5) to carry out the provisions of
 a contract with Calaveras Cement Company,
 dated March 3, 1961.

Application No. 43505
(Filed June 14, 1961)

(Gas)

- F. T. Searls, John C. Morrissey and Malcolm A. MacKillop, for applicant.
- D. N. Maytum, for Standard Oil Company of California; Ted Garlington, for County of Shasta, Shasta County Economic Commission, City of Redding and Redding Chamber of Commerce; Virgil L. Covington, for Anderson Chamber of Commerce; interested parties.
- W. Roche and George Young, for the Commission staff.

O P I N I O N

Applicant's Request

Pacific Gas and Electric Company (PG&E) requests that the Commission issue an order:

1. Granting to PG&E certificates of public convenience and necessity:

- a. To construct, operate, maintain and use an extension from its Main 400 to distribute

and sell natural gas in the City of Redding and vicinity, to the Calaveras Cement Company (Calaveras) near Shasta Lake in Shasta County, and in areas adjacent to the proposed extension.

- b. To exercise rights under the franchises granted by Shasta and Tehama Counties which may be used and useful in connection with said gas main extension.
- c. To exercise the franchises granted by the counties of Colusa, Contra Costa, Glenn, Modoc, Sacramento, Shasta, Siskiyou, Solano, Tehama and Yolo which may be used or useful in connection with the supply of natural gas service to the public either directly from or by means of reasonable extensions made from its Main 400 in the ordinary course of business.

2. Authorizing PG&E to file tariff schedules and rules applicable to the proposed natural gas service and to revise its presently effective tariffs so as to withdraw the offering of propane-air gas service in Redding.

3. Authorizing PG&E to carry out the terms and conditions of a contract with Calaveras dated March 8, 1961, relating to the supply of interruptible natural gas service at its cement plant near Shasta Lake.

Public hearing on PG&E's request was held at Redding before Commissioner Frederick B. Holoboff and Examiner James F. Haley on November 27, 1961; evidence was adduced and the matter taken under submission.

Main 400

Pursuant to authorization of this Commission in Decision No. 60564, dated August 16, 1960, in Application No. 40738, PG&E is constructing a 36-inch natural gas pipeline from the California-Oregon border to Antioch. This pipeline, which has been designated as Main 400 by PG&E, will form the California section of a project having an initial capacity to deliver 414 million cubic feet of

natural gas per day to California from the fields of western Alberta in Canada. Main 400 will pass through the counties of Modoc, Siskiyou, Shasta, Tehama, Glenn, Colusa, Yolo, Solano, Sacramento and Contra Costa. PG&E points out that Main 400 will make natural gas available in sections of northern California not now served with this fuel. It seeks authorization to supply natural gas service from the entire length of Main 400, along the route of which much of the territory is not now provided with public utility gas service. No other gas utility operates in the area herein proposed to be served. The only other public utility supplying gas service in the northeastern part of California is California-Pacific Utilities Company which provides propane-air gas service in Yreka and Dunsmuir in Siskiyou County. These cities are not near the route of PG&E's Main 400, and PG&E states that the authorizations sought herein are not for the purpose of enabling it to compete with California-Pacific Utilities Company within its present Yreka and Dunsmuir service areas.

Redding-Calaveras Extension

In Redding, PG&E now has a gas plant and distribution system for the supply of propane-air gas. This propane-air gas system is not presently connected with PG&E's integrated natural gas system. The Redding-Calaveras extension from Main 400 will be used for the purposes of integrating the Redding gas system with PG&E's natural gas system and converting the Redding supply from propane-air to natural gas. It will also supply firm and interruptible natural gas to Calaveras's new cement plant near Shasta Lake. In addition, PG&E proposes to supply natural gas to customers in the territory to be traversed by the extension. Some of the communities which PG&E anticipates thus serving within the three-year period following commencement of operation of the extension are suburban Redding,

Cottonwood, Anderson, Enterprise, Project City and Central Valley.

The route of the Redding-Calaveras extension is shown on Map 1 in Exhibit 4 herein. It will require capital expenditures by PG&E aggregating about \$2,148,000. Of this amount, approximately \$1,754,000 represents the estimated cost of the principal trunk main; \$77,000, the cost of the Redding tap and trunk main; and \$317,000, the cost of additional distribution facilities in Redding.

As of March 1961, PG&E was serving propane-air gas to 555 customers in Redding. According to PG&E this represents less than 10 percent of the potential gas customers in that city. PG&E recounts that the number of gas customers has decreased in recent years because of the relatively high cost of propane-air gas and the availability of competitive fuels such as oil and bottled gas.

In effecting the changeover from propane-air gas to natural gas service, it will not be necessary, PG&E states, to make a general conversion of the gas-burning appliances of existing customers. According to PG&E, the quality of the gas from the Alberta-California project will permit its substitution for the present propane-air mixture.

Calaveras Contract

Under the terms of its contract with Calaveras, a copy of which is attached to the application as Exhibit D, PG&E agrees to supply the cement plant with interruptible natural gas under the provisions of its filed tariff schedule G-51. Pursuant to the provisions of PG&E's Rule 15, paragraph D.2, Calaveras agrees to pay PG&E \$99,175, representing the difference between \$652,550, the estimated allocated cost of a main trunk facility necessary to provide Calaveras's interruptible gas service requirements, and \$553,375, the free allowance credit equal to the estimated annual

revenue from the sale of interruptible gas to the cement plant. Section 8 of the contract provides that the \$99,175 is not subject to refund for the reason stated therein that the amount is based on the cost of a main sized to Calaveras's requirements and without spare capacity to serve future firm gas customers.

The contract is for an initial term of ten years and is renewable on a year-to-year basis. The contract becomes effective March 18, 1961, subject to authorization of this Commission, and it contains the provision that it shall be subject to such changes as the Commission may from time to time direct. PG&E takes the position that the initial ten-year term of the contract is necessary to assure continuity of revenue and to protect PG&E's capital investment in the gas facilities it will install to provide sufficient capacity for the interruptible gas service to Calaveras. This term differs from that specified in PG&E's filed tariff Rules 4 and 15, which provide for an initial term of three years.

Proposed Gas Rates and Rules

PG&E proposes to establish a regional gas rate area, to be known as Shasta Rate Area. Shasta Rate Area would provide the same rate level for service from the Redding-Calaveras extension and from Main 400 between its intersection south of Red Bluff with Main 177 and the northern boundary of Shasta County. As of the dates on which natural gas service is instituted, PG&E proposes to make the following presently filed tariff schedules effective in the Shasta Rate Area: Schedule G-6.1 for general natural gas service; and Schedule G-51 for interruptible natural gas service. PG&E does not propose at this time to establish a rate for firm industrial gas service for the Shasta Rate Area.

PG&E represents that Schedule G-6.1 and Schedule G-51 will yield it not more than a reasonable rate of return in the early years of development. The following summary shows the rates of return which PG&E estimates will be obtained from the initial and ultimate stages of development, assuming third year customer potentials:

	<u>Rate of Return</u>
1. Initial Development (present Redding Service Area and Calaveras Cement Company)	6.2%
2. Ultimate Development (Item 1 plus suburban Redding, Cottonwood, Anderson, Enterprise, Project City and Central Valley)	4.9%

By Decision No. 61713, dated March 21, 1961, in Application No. 42225, PG&E's last general gas rate proceeding, the Commission found a 6.25 percent rate of return to be reasonable for the over-all operations of PG&E's gas department.

PG&E presently serves parts of San Bernardino, Kern, Placer, San Joaquin and Stanislaus Counties on Schedule G-6.1. Schedule G-51 is applicable for all interruptible gas service in Humboldt County.

Exhibit No. 5, introduced by PG&E, shows that the typical existing Redding domestic customer has an average monthly consumption of 2,975 cubic feet of propane-air gas, for which he pays \$11.45. Under the Schedule G-6.1 rates proposed by PG&E, this customer would pay \$6.28 per month for the equivalent heating value in natural gas. This would represent a reduction of \$5.17, or 45 percent, in his average monthly gas bill.

The same exhibit shows that the typical Redding commercial customer has an average monthly consumption of 16,675 cubic feet per

month of propane-air gas, for which he now pays \$44.37. Under the proposed Schedule G-6.1 rates, this customer would be billed \$24.03, representing a reduction of \$20.34, or 46 percent, in average monthly charges.

Customers in all other usage blocks, from 500 cubic feet upward, would realize savings over present charges for propane-air gas for the fuel equivalent in natural gas at Schedule G-6.1 rate levels. Such savings would increase with consumption. The customer now using 500 cubic feet would realize a 9 percent reduction; the customer now consuming 100,000 cubic feet would realize a 50 percent reduction.

For the natural gas service which it seeks authorization to supply in Siskiyou and Modoc Counties from Main 400, PG&E has no presently filed rates nor does it herein propose rates for such service. PG&E states that it will submit rate proposals for such service to the Commission when it has completed its studies and plans therefor and before it supplies any gas service in the two said counties.

For the gas service to be supplied from the section of Main 400 between its intersection with Main 177 and Antioch terminal, PG&E proposes to apply Schedule G-6 rates for general natural gas service, Schedule G-40 rates for firm industrial service and Schedule G-50 rates for interruptible gas service.

Exhibit No. 4 contains the various rate schedules proposed by PG&E and small-scale maps of the areas in which authority is sought to serve natural gas. PG&E proposes that its presently filed rules governing the supply of natural gas be made applicable to gas service in this area.

Positions of the Interested Parties

Of the interested parties appearing at the hearing, the County of Shasta, Shasta County Economic Commission, City of Redding, Redding Chamber of Commerce and Anderson Chamber of Commerce all urged that PG&E be granted authorization to serve natural gas in Shasta County. Standard Oil Company of California took no position in the matter. There were no protests to the granting of the application.

Position of the Commission Staff

The Commission staff took the position that the granting of the application would be in the public interest, subject to the recommendations that:

1. G-7 rates, rather than G-6.1 rates, be authorized for general gas service in the Shasta Rate Area.
2. A rate schedule for firm industrial service should be filed for the Shasta Rate Area.
3. No certificate be granted to PG&E for Modoc and Siskiyou Counties since no rate proposal therefor is included in the application.
4. The rate area map to be filed by PG&E clearly define the areas to be served.
5. PG&E be required to file a schedule as to the date service will become available in each of the communities herein authorized to be served.
6. The refund provisions of Rule 15, paragraph D.2 should apply to the Calaveras extension, making the \$99,175 advance by Calaveras refundable.

Discussion of Staff Recommendations

The following tabulation compares rates and charges under Schedule G-6.1 as proposed by PG&E with those which would apply under Schedule G-7 as recommended by the staff:

		<u>Per Meter Per Month</u>	
		<u>Effective Rates - 1100 Btu</u>	
		<u>G-6.1</u>	<u>G-7</u>
First	200 cu.ft. or less	\$ 2.315	\$ 1.565
Next	2,300 cu.ft., per 100 cu.ft.	11.95¢	10.10¢
Next	17,500 cu.ft., per 100 cu.ft.	10.59	9.33
Next	30,000 cu.ft., per 100 cu.ft.	9.35	8.66
Next	4,900,000 cu.ft., per 100 cu.ft.	9.01	8.50
Over	5,000,000 cu.ft., per 100 cu.ft.	8.08	8.21

		<u>Billings</u>	
		<u>G-6.1</u>	<u>G-7</u>
	2,000 cu.ft.	\$ 4.47	\$ 3.38
	3,000 cu.ft.	5.59	4.35
	4,000 cu.ft.	6.65	5.29
	5,000 cu.ft.	7.71	6.22
	7,000 cu.ft.	9.83	8.09
	8,000 cu.ft.	10.89	9.02
	9,000 cu.ft.	11.95	9.95
	10,000 cu.ft.	13.01	10.89
	15,000 cu.ft.	18.30	15.55
	20,000 cu.ft.	23.60	20.22

Exhibit 6, introduced by the staff, shows the application of Schedule G-7, instead of Schedule G-6.1, to general natural gas service would result in the following rates of return, assuming third year customer potentials:

	<u>Rate of Return</u>
1. Present Redding Service Area	3.7%
2. Item 1 plus suburban Redding, Anderson, Cottonwood, Enterprise, Project City, Central Valley and Calaveras Cement Company	3.4%

In the light of the relatively low rate of return which Schedule G-7 rates would produce and in consideration of other rate-making factors, including but not limited to current rate levels, value of service, present development and burden on existing customers, we conclude

that Schedule G-6.1 rates should apply to general natural gas service in the Shasta Rate Area. However, to insure that excessive earnings will not accrue to PG&E as the natural gas load in the area develops, the order herein will require PG&E, for the next five years, to maintain continuing records on the annual results of its natural gas operations in the Shasta Rate Area and to submit such results annually to the Commission.

Concerning the second staff recommendation, the record indicates that there is a public requirement for firm industrial natural gas service in the Shasta Rate Area. The order herein will require PG&E to make its Schedule G-40.1 applicable to such service in the area to be certificated.

In regard to the staff's third recommendation, the order herein will not at this time authorize PG&E, in the absence of any rate proposals therefor, to supply natural gas in Siskiyou and Modoc Counties. When PG&E has completed its studies of these areas and its plans are sufficiently crystallized as to permit it to make concrete rate proposals, it may file a separate application, or applications, for authority to provide natural gas service in the two said counties.

The merits of the staff's fourth and fifth recommendations are obvious. The order herein will require PG&E to file a service area map clearly defining the areas herein authorized to be served and a schedule of the approximate dates on which natural gas service will first be supplied in each of the communities in said area.

With respect to the staff's sixth recommendation, the Commission has reviewed the agreement between PG&E and Calaveras and has considered PG&E's representation that the sum of \$99,175 should not be subject to refund because it is based on a cost allocation related only to Calaveras's requirements. We are unable to see the

logic of PG&E's position that this method of determining the amount of the construction advance should cause such advance not to be subject to refund. The contract states that the amount of \$99,175 is payable to PG&E pursuant to the provisions of its Rule 15, paragraph D.2, yet PG&E contends that such amount is not refundable despite the fact said paragraph clearly and unequivocally provides for its refund. We fail to discern any unusual circumstances related to this extension which would cause the application of said paragraph in its entirety to be unjust to PG&E. The order herein will, therefore, provide for the refund of the \$99,175 to be advanced by Calaveras.

Findings and Conclusions

Based upon the evidence of record the Commission finds and concludes that:

1. The public convenience and necessity require:
 - a. The construction, operation, maintenance and use by PG&E of the Redding-Calaveras natural gas extension described in the application and further require in connection therewith the exercise of gas franchises and rights granted by the counties of Shasta and Tehama.
 - b. The exercise of certain county franchises heretofore granted to it, as more specifically set forth in the order that follows, in connection with the supply of natural gas service to the public either directly from portions of Main No. 400, or by reasonable extensions made in the ordinary course of business from said main.
2. The rates and charges authorized herein are justified and reasonable, and present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.
3. It would be adverse to the public interest to grant PG&E authority to exercise the gas franchises heretofore granted by the counties of Modoc and Siskiyou without at the same time establishing

rates for the natural gas service proposed to be supplied in the two said counties.

4. PG&E should file a service area map, or maps, clearly defining the areas herein authorized to be served and a schedule of the approximate dates on which natural gas service will first be supplied in each of the communities in said areas.

5. The construction advance by Calaveras in the amount of \$99,175 should be subject to refund as required by the provisions of PG&E's Rule 15, paragraph D.2, and accordingly, the contract between PG&E and Calaveras, dated March 8, 1961, to which exception is otherwise not taken, should be modified to provide for such refund.

The certificates hereinafter granted shall be subject to the following provision of law:

That the Commission shall have no power to authorize the capitalization of the franchises involved herein or these certificates of public convenience and necessity, or the right to own, operate or enjoy such franchises or certificates 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 issuance of such franchises, certificates of public convenience and necessity or right.

O R D E R

Public hearing having been held, the matter having been submitted and now being ready for decision; therefore,

IT IS ORDERED that:

1. Pacific Gas and Electric Company, applicant, is hereby granted certificates of public convenience and necessity:

- a. To construct, operate, maintain and use a natural gas main extension from its Main No. 400 to Redding and to the Calaveras Cement Company near Shasta Lake, Shasta County.

- b. To exercise the rights and privileges granted to applicant by the following city and county ordinances to the extent which they may be useful in connection with said extension and in furnishing natural gas service in the vicinity of Redding and to areas adjacent to said extension:

<u>City or County</u>	<u>Ordinance Number</u>	<u>Date</u>
Redding	278	May 14, 1941
Shasta	416	January 18, 1960
Tehama	145	May 11, 1953

- c. To exercise the rights and privileges granted to applicant by the following county ordinances to the extent which they may be useful in connection with the supply of natural gas service to the public either directly from or by means of reasonable extensions made in the ordinary course of business as contemplated by Section 1001 of the Public Utilities Code from applicant's Main No. 400 in the counties named:

<u>County</u>	<u>Ordinance Number</u>	<u>Date</u>
Colusa	133	February 2, 1948
Contra Costa	423	February 9, 1948
Glenn	243	January 17, 1944
Sacramento	341	November 15, 1948
Shasta	416	January 18, 1960
Solano	345	December 3, 1951
Tehama	145	May 11, 1953
Yolo	212	June 7, 1948

The Commission may hereafter by appropriate proceeding and order limit the authority herein granted to applicant as to any territory within said counties not then being served by it.

2. After the effective date of this order, but before July 1, 1962, applicant is authorized to file, in conformity with General Order No. 96 and in a manner acceptable to this Commission, such new and revised tariff sheets as are necessary for the purposes specified below, such new and revised tariff sheets to become

effective upon five days' notice to this Commission and to the public after filing as hereinabove provided:

- (a) To make effective the following rate schedules for all service from the section of Main No. 400 between its intersection with Main 177 and the northern boundary of Shasta County:

Schedule G-6.1, General Natural Gas Service;
Schedule G-40.1, Firm Industrial Service;
Schedule G-51, Interruptible Natural Gas Service.

- (b) To make effective the following rate schedules for all service from the section of Main No. 400 between its intersection with Main 177 and Antioch Terminal:

Schedule G-6, General Natural Gas Service;
Schedule G-40, Firm Industrial Service;
Schedule G-50, Interruptible Natural Gas Service.

- (c) To withdraw and cancel Schedule G-82, Propane-Air Gas Service, and to revise accordingly its Rule 2 presently applicable in the City of Redding.

- (d) To provide a filed service area map, or maps, clearly defining the areas herein authorized to be served (shown in blue and green on Map 1 in Exhibit 4 herein) and to provide a schedule of the approximate dates on which natural gas service will first be supplied in each of the communities in said areas.

3. Applicant is authorized to carry out the terms and conditions of the contract for the supply of natural gas to Calaveras Cement Company dated March 8, 1961, except that such contract shall be modified to provide that the \$99,175 advance to be made by Calaveras shall be subject to refund in accordance with applicant's filed Rule 15, paragraph D.2.

4. For the next five calendar years, applicant shall maintain continuing records on the results of its natural gas operation in the Shasta Rate Area and annually shall submit a

written report on such results to the Commission no later than June 30th of each following year.

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

Dated at San Francisco, California, this 30th day of January, 1962.

Robert W. Page
President

John E. Mitchell

Frederic B. Haloboff

Commissioners

Commissioner C. Lyn Fox, being necessarily absent, did not participate in the disposition of this proceeding.