

ORIGINALDecision No. 69070

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of THE SEA RANCH GAS &
 WATER COMPANY for a certificate
 of public convenience and necessity
 to operate a public utility gas
 system, and for an order authorizing
 it to establish rates for gas service,
 and to issue common stock.

Application No. 47243
 (Filed January 8, 1965)

O P I N I O N

This application by The Sea Ranch Gas & Water Company, a newly organized California corporation, requests a certificate of public convenience and necessity to construct and operate a public utility gas system in an area known as The Sea Ranch Unit I, a portion of The Sea Ranch, a development of 5,200 acres which is 1/2 to 1-1/2 miles in width and 9 miles in length, located in the northwestern corner of Sonoma County along the Pacific Ocean approximately halfway between Point Reyes and Fort Bragg. Unit No. 1 is to consist of 62 acres for home sites, with 42 acres of open area among the residential lots, 14 acres for a condominium, and 42 acres for shopping and resort lodge facilities. Applicant also requests authority to establish rates and to issue to Oceanic Properties, Inc. (Oceanic) at par 28,000 shares of its \$1.00 par value common stock for a cash consideration of \$28,000.

Applicant is a wholly owned subsidiary of Oceanic, which is in turn owned by Castle & Cooke, Inc. Both Oceanic and Castle & Cooke, Inc. are Hawaii corporations. Oceanic is a land development company having projects in Hawaii and California. Applicant's officers are also the officers of Oceanic.

Applicant's proposed gas system, as shown on Exhibit C attached to the application, will consist of four separate distribution systems, each with its own 1,000-gallon steel storage tank. Each of three of the systems will serve a cluster of single-family residences, while the fourth will serve the condominium development and the general store. Liquefied petroleum gas (LPG) will be delivered by tank truck to each of the four storage tanks by an LPG distributor from whom applicant will purchase its gas supply. From the storage tanks, liquefied gas will be vaporized and delivered in gaseous form to the residences, the condominium and store by means of 5,650 feet of 2-inch and 1½-inch wrapped steel pipe distribution mains installed in the roadways. Gas will be delivered to individual meters at the point of use at a pressure of approximately five pounds per square inch.

Applicant proposes a general metered service tariff schedule. Using this schedule and assuming an average monthly usage of 3,030 cubic feet of gas for each full-time residential customer and half of that amount for each part-time residential customer, applicant developed its estimated annual revenue from all sources in "Unit I" as shown in Exhibit I attached to the application. Exhibit I shows individual results for 30%, 60% and 80% saturation of Unit I.

After the application was filed, the Commission's staff made an investigation. A copy of the staff report, dated April 2, 1965, is hereby incorporated in this record as Exhibit No. 1. The report includes operating and financial data and a recommendation that a basic residential rate of \$3.00 per month be authorized, calculated on a therm basis.

A comparison of the staff's analysis of operating results with those estimated by applicant, both being based on 80% of customer saturation in the fifth year of operation, is shown below:

<u>Item</u>	<u>Staff</u>	<u>Applicant</u>	<u>Applicant Exceeds Staff Amount</u>	<u>Percent</u>
<u>Operating Revenues</u>				
Gas Sales	\$ 9,573	\$ 9,407	\$ (166)	(1.73)%
<u>Operating Expenses</u>				
Purchase Propane	5,280	4,972	(308)	(5.83)
Transmission & Distribution	350	288	(62)	(17.71)
Customer Acctg. & Col.	550	540	(10)	(1.82)
General	100	100	-	-
Subtotal	6,280	5,900	(380)	(6.05)
Taxes Other Than Income	380	380	-	-
Depreciation	782	1,340	558	71.36
Total Opr. Exp.	7,442	7,620	178	2.39
Net Revenue	2,131	1,787	(344)	(16.14)
Rate Base (Depreciated)	27,600	28,000	400	1.45
Rate of Return	7.72%	6.38%	(1.34)%	-

(Red Figure)

The differences between the staff's and applicant's estimates are explained in Exhibit No. 1.

The staff as well as applicant is aware that the preceding rates of return, which do not include consideration of an allowance for federal or state income taxes, will not materialize for some time and that applicant will experience losses during its initial development period. Oceanic Properties, Inc. has agreed to provide applicant with the funds necessary to finance such losses, by means of open account cash advances for a period of five years.

The Commission finds that:

1. Public convenience and necessity require that applicant construct and operate the proposed system.
2. Applicant possesses the financial resources to construct and operate the proposed system.
3. The estimates of operating revenues, expenses, including taxes and depreciation, the rate base and rate of return submitted by the staff are reasonable for the purpose of prescribing rates herein.
4. The rates set forth in Appendix A attached hereto are fair and reasonable for the services to be rendered.
5. The money, property or labor to be procured or paid for by the issuance of the stock herein authorized is reasonably required for the purposes specified herein, and such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income.

The Commission concludes that:

1. The application should be granted to the extent set forth in the ensuing order.
2. Applicant should file rules, standard forms and other tariff sheets as needed to define the conditions of rendering public utility service.

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

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.

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 given 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 proceedings for the determination of just and reasonable rates.

A public hearing is not necessary.

O R D E R

IT IS ORDERED that:

1. A certificate of public convenience and necessity is granted to The Sea Ranch Gas & Water Company, authorizing it to construct and operate a public utility gas system in Unit I of The Sea Ranch, Sonoma County, California.
2. Applicant, on or after the effective date hereof and on or before December 31, 1965 may issue not to exceed 28,000 shares of its \$1 par value common capital stock at par for the purposes set forth in the application.
3. Applicant shall file with this Commission a report or reports as required by General Order No. 24-B, which order insofar 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 with affidavit of the cost of propane, 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 in accordance with the requirements of General Order No. 96-A.

5. 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.

6. For the year 1965, applicant shall apply a depreciation rate of 3.24% to the original cost of depreciable plant. Until review indicates otherwise, applicant shall continue to use this rate. Applicant shall review its depreciation rates at intervals of five years and whenever a major change in depreciable plant occurs. Any revised depreciation rate shall be determined by: (1) subtracting the estimated future net salvage and the depreciation reserve from the original cost of plant; (2) dividing the result by the estimated remaining life of the plant; and (3) dividing the quotient by the original cost of plant. The results of each review shall be submitted promptly to the Commission.

7. Applicant shall not exercise the authority granted herein for the purpose of supplying gas in those parts or portions of Sonoma County outside Unit I of The Sea Ranch except through extensions of its system made in the ordinary course of business, as contemplated by Section 1001 of the Public Utilities Code.

8. Applicant shall file with this Commission monthly statements of the heating value of liquefied petroleum gas being served.

9. The authorization herein granted will expire if not exercised on or before December 31, 1965.

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

Dated at Los Angeles, California, this 18th day of May, 1965.

Frederick C. Hallock
President
George H. Thayer
Augustin

-6- Commissioner William M. Bennett, being necessarily absent, did not participate in the disposition of this proceeding. Commissioners

APPENDIX A
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Schedule No. G-80

GENERAL SERVICEAPPLICABILITY

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

TERRITORY

The unincorporated territory of The Sea Ranch along the Pacific Ocean, west of the Gualala River, Sonoma County, California.

RATES

	<u>Per Meter Per Month</u>	
	<u>Base Rate</u>	<u>Effective Rate</u>
First 8 therms* or less	\$3.00	\$3.00
Next 32 therms per therm	25.0¢	25.0¢
Over 40 therms per therm	18.0¢	18.0¢

*The word "therm" means one hundred thousand British thermal units (100,000 Btu)

$$\text{Therms} = \frac{\text{Usage (cubic feet)} \times \text{Btu per cubic foot}}{100,000 \text{ Btu}}$$

The above effective rates are based on the following fuel clause and a cost of propane of 11.00¢ per gallon.

	<u>Per Meter Per Month</u>
Minimum Charge	\$3.00

SPECIAL CONDITIONS

1. Service to "SEASONAL CUSTOMERS" under this Schedule is available only on an annual contract requiring an advance payment of the monthly minimum charges for the contract year, the amount of the advance being \$36.

2. For gas used in excess of eight therms per month, the rates in effect at any time vary with the average cost of liquefied petroleum gas delivered to the plants generating gas served under this Schedule and shall be determined from the above base rates by adding to or deducting therefrom, respectively, 1.0¢ per therm for each 0.8¢ that such cost of propane is above or below 11.00¢ per gallon, the change in rate to be to the nearest 0.5¢.

(Contd.)

APPENDIX A
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Schedule No. G-80

GENERAL SERVICE

SPECIAL CONDITIONS (Contd.)

3. When a change in the cost of propane of more than 0.80¢ per gallon occurs, the Company shall submit to the Public Utilities Commission, within a period of 15 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.

4. The phrase "cost of propane" as used in this schedule is the cost of propane purchased from the supplier including the charges for trucking and delivery.