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**ORIGINAL**

Decision No. 69724

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of ROLLING GREEN UTILITIES, INC., for a certificate of public convenience and necessity to conduct operations as a public utility gas system; to conduct operations as a public utility water system, and for an order authorizing it to establish rates for gas and water service and to issue common stock.

Application No. 47642  
(Filed June 4, 1965)

O P I N I O N

This application seeks certificates for water and gas service in an area approximately one mile northwest of the unincorporated community of Big Pine, Inyo County. A copy of the report of an engineer of the Commission's Utilities Division, Gas Section, together with the copy of a gas system maintenance contract attached to it will be included in the record as Exhibit No. 1. A copy of the joint report of an engineer of the Commission's Utilities Division, Hydraulic Branch, and a financial examiner of the Commission's Finance and Accounts Division will be included in the record as Exhibit No. 2.

A legal description of the tentative area herein sought to be certificated is as follows:

A subdivision of the Southwest 1/4 of the Northwest 1/4 and the Northwest 1/4 of the Southwest 1/4, all in Section 7, Township 9 South, Range 34 East, M.D.B. & M.

The initial tract of 44 lots (Tract No. 1) is officially described as being a portion of the Northwest 1/4 of the Southwest

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1/4 of Section 7, Township 9 South, Range 34 East, M.D.B. & M. The subdivisions will be named Rolling Green Terrace. When fully developed the tract will consist of 277 lots whose average area will be about 9,000 square feet.

Dean W. Knight and Beatrice R. Knight are the organizers and owners of applicant and another corporation called Dean W. Knight and Sons, Inc. (Knight). Knight has an office in Bishop which will be available for use by applicant. Knight will develop this property.

Elevations within the requested area range from 3,600 to 3,700 feet. All streets within the area maintain a maximum grade of three percent and should not present any unusual construction problems.

There is a substantial variation in climatic conditions in applicant's proposed area with temperatures ranging from a minimum of zero degrees Fahrenheit in the winter to a recorded maximum of 100 degrees in the summertime.

The final subdivision map for Rolling Green Terrace was approved by the Inyo County Planning Commission in April 1965.

#### Gas Utility System

Construction of the gas utility system has not yet begun. The system which will serve Tract No. 1 has been designed by Turner Gas Company (Turner), an experienced distributor and developer of LP gas systems. Materials and installation will comply with the requirements of General Orders Nos. 94-A and 112-A. Applicant has presented no plans or estimates of the gas system except that which will serve Tract No. 1.

Liquefied petroleum gas will be delivered by tank truck to the tank storage site and will be distributed to the residences

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in Tract No. 1 by means of 2,700 feet of 3-inch, 2-inch, 1½-inch, 1-inch, and ¾-inch wrapped steel pipe installed in the parkways.

Gas storage capacity will be provided by six 1,000-gallon tanks for an estimated five years. Ultimately, a single larger tank will be constructed outside of the residential area on a one-acre site presently owned by the developer.

Meter reading and customer accounting will be performed by personnel employed by the developer. An office for payment of bills and communication with customers will be maintained at the office of Knight, in Bishop. Inspection and maintenance service is to be performed by Turner in accordance with an agreement between applicant and Turner, a copy of which is attached to Exhibit No. 1. Applicant will pay a maintenance fee equivalent to one-fourth cent per gallon of LP gas delivered to applicant. Turner will make periodic gas leakage surveys and will repair leaks found in the system.

Applicant has provided the staff with a revised estimate of the cost of gas facilities. The estimated annual depreciation expense and the pro forma balance sheet and earnings statements have also been revised. A copy of these revised estimates are attached to Exhibit No. 1. These revisions are due to a change in the original proposed location of the gas storage site to that indicated on Exhibit D attached to the application. The revised quantities and sizes of distribution mains also eliminate all 1/2-inch mains from the gas system.

The staff engineer has reviewed applicant's estimates for utility plant, operating revenue, and operating expenses. Applicant's revised estimated utility plant does not include a valuation for the one-acre storage site to be acquired by the

utility at a future date. No valuation has been placed on the site where the temporary storage tanks will be located, since that site will be used for residential lots when the permanent storage facilities are installed. Applicant's estimated cost for construction of the gas system appears reasonable.

Applicant's estimated depreciation expense is 5.7 percent of depreciable gas plant. This average rate reflects the use of temporary storage facilities. Applicant has estimated 50 percent salvage value on the tanks and a five-year total life. When the permanent tank is installed, the average depreciation rate should be substantially lower.

Applicant's estimated operating expenses have been reviewed by the staff engineer and appear reasonable for the proposed operation.

Applicant proposes a general metered service tariff schedule as Exhibit "E" attached to the application. The unit of consumption proposed is the therm. The rates proposed are comparable to the rates of other LP gas utilities in the general area.

Applicant has provided a revised pro forma earnings statement (Attachment C, Sheet 5) which indicates net annual operating income from the LPG operation of \$1,084 before Federal income taxes. When related to rate base of \$14,689 applicable to the LPG operation, this income provides a 7.4 percent rate of return. If an estimate of Federal income taxes had been made for this level of income, the indicated rate of return would be 5.8 percent. Applicant's estimate is based on full occupancy of Tract No. 1. During the period prior to full occupancy, applicant will not achieve this level of earnings.

Applicant and its shareholders are placed on notice that net operating losses occasioned by failure of the subdivision to develop on a self-sustaining basis at reasonable rates will have to be absorbed by the applicant.

Water Utility System

The nearest existing water system to this subdivision is operated by the Department of Water and Power of the City of Los Angeles in Big Pine, Inyo County, and is located approximately one mile south of applicant's proposed system. A representative of the Department of Water and Power has advised a staff engineer that the Department will have no objection to applicant's proposed water system operation.

Operation and maintenance of the system will be performed by an employee of applicant who will live within the requested area. Billing, collecting and maintaining of records will be performed at the office of Knight, in Bishop.

The source of water supply will be two wells which have been drilled within the requested service area. Each of these wells is 12 inches in diameter and has been drilled to a depth of 125 feet. Single-wall steel casing has been installed in each of the wells and each well has been tested for a yield of 450 gallons per minute with a 65-foot drawdown at the completion of a 24-hour test. An examination of the well logs indicates the existence of suitable strata for water production and each well has a static water level of eight feet. The wells are each to be equipped with a 25-horsepower electric motor directly connected to a deep well turbine pump having a designed production capacity of 450 gallons per minute when pumping through a 5,000-gallon pressure tank and into the distribution mains in a pressure range of 40 to

50 pounds per square inch. The distribution mains are to be of 4-inch and 6-inch Class 150 asbestos-cement pipe and the overall design of the system is adequate to provide water service meeting the minimum requirements of this Commission's General Order No. 103.

Other public utility water companies in the Owens Valley area have a minimum day requirement of 200 gallons per service connection in the winter months and a single service maximum demand of six gallons per minute in summer months. Based on this recorded use in similar adjacent areas the staff engineer has estimated that the maximum demand for Unit No. 1 of 44 lots will be 264 gallons per minute. At ultimate development, maximum demand of the requested area will be 560 gallons per minute.

Applicant has requested the issuance of a water supply permit from the Inyo County Health Department acting for the State of California Department of Public Health. Upon completion of the distribution system the Health Department will take further action in processing this application for a water supply permit.

The proposed distribution system will consist of the wells and pressure tank previously described in this report and approximately 1,625 feet of 6-inch Class 150 asbestos-cement pipe, 1,637 feet of 4-inch Class 150 asbestos-cement pipe, 43 services of 3/4-inch copper tubing, and two standard fire hydrants. Applicant has submitted a revised estimate of the costs of the utility plant for the first unit. These costs have been reviewed by the staff and found to be reasonable with the exception of applicant's estimate of the cost of the lot on which the wells are located. This 9,000-square foot lot has been related to the cost on a per-acre basis of subdivided and developed land and in this

instance there are approximately four lots per acre. Applicant's estimate of \$3,500 for this lot would result in a cost of \$14,000 per acre for land upon which the wells and pumping plant are located. The staff engineer has checked valuation of similar land in the Owens Valley area and estimates that \$2,500 is a more reasonable amount for this lot.

The total revised estimated cost of both gas and water systems for the initial development, as projected by applicant in the amount of \$52,297, is tabulated below by plant account:

	<u>Plant Facilities</u>		
	<u>Gas</u>	<u>Water</u>	<u>Total</u>
Intangible Plant	\$ 1,000	\$ 1,000	\$ 2,000
Land		3,500	3,500
Wells		6,000	6,000
Structures & Improvements		2,575	2,575
Pumping Equipment		7,500	7,500
Distribution Mains	4,099	14,673	18,772
Services	1,680	860	2,540
Meters	1,680		1,680
Hydrants		500	500
Tanks, etc.	5,230		5,230
Transportation Equipment		2,000	2,000
	<u>\$13,689</u>	<u>\$38,608</u>	<u>\$52,297</u>

Applicant seeks authority to issue and sell not to exceed 5,500 shares of its \$10 par value common stock for a cash consideration of \$55,000.

Total cash required for the construction of the initial development is as follows:

Gas facilities	\$13,689
Water facilities	38,608
Working capital	<u>2,003</u>
Total	<u>\$54,300</u>

Applicant estimates that complete saturation of the proposed development (277 lots) will take approximately five years. The following tabulation reflects pro forma capitalization,

utilizing applicant's estimates of water and gas plant facilities, for both the initial and ultimate development:

	<u>12/31/65</u>		<u>12/31/70</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
<u>Capitalization</u>				
<u>Common Equity Capital</u>				
Water Division	\$38,608	71.1	\$38,608	27.2
Gas Division	<u>13,689</u>	<u>25.2</u>	<u>52,200</u>	<u>36.8</u>
	52,297*	96.3	90,808	64.0
Working Capital	<u>2,003</u>	<u>3.7</u>	<u>2,000</u>	<u>1.4</u>
	54,300	100.0	92,808	65.4
<u>Advances for Construction</u>				
Water Division			49,042	34.6
Gas Division			<u>-</u>	<u>-</u>
Total Capitalization	\$54,300	100.0	\$141,850	100.0

\* Includes \$2,000 of organization costs.

The above tabulation reflects a reasonably high ratio of equity capital which will provide a sufficient cushion against possible financial reverses.

Applicant has requested authority to establish a rate of \$5.00 per service per month for unmetered water service for each 3/4-inch connection. The staff engineer has reviewed this type of operation and is of the opinion that applicant should also be required to file compatible rates for metered service. Such a rate schedule has been included in Appendix B to the following order.

The requested area is not within the boundaries of an organized fire protection district. Applicant has not requested a rate for public fire protection service.

Net operating losses resulting from insufficient saturation of the proposed development should be subsidized by applicant's stockholders.



The Commission finds that:

1. Public convenience and necessity require that the application be granted as set forth in the ensuing order.
2. Applicant possesses the financial resources to construct and operate the proposed systems.
3. The money, property or labor to be procured or paid for by the issue 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.
4. The action taken herein is for the issuance of a certificate of public convenience and necessity only and is not to be considered as indicative of amounts to be included in future proceedings for the purpose of determining just and reasonable rates.
5. The rates set forth in Appendices A and B attached hereto are fair and reasonable for the services to be rendered.
6. Applicant's gas facilities will provide reasonable service for the proposed certificated area and comply with the requirements of General Orders Nos. 94-A and 112-A.
7. Applicant's water supply and distribution facilities will provide reasonable service for the proposed certificated area and substantially meet the requirements of General Order No. 103.
8. Applicant has not yet procured a permit for its water supply from the public health authority having jurisdiction.

The Commission concludes that the application should be granted as provided by the following order.

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 future 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 Rolling Green Utilities, Inc., authorizing it to construct and operate a public utility gas system in the 80-acre area designated as Rolling Green Terrace on the map, Exhibit A, attached to the application.
2. 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.

3. Applicant shall notify this Commission in writing of the date gas service is first rendered to the public under the rates and rules herein authorized within ten days thereafter.

4. Applicant shall determine the accruals for depreciation by dividing the original cost of the utility gas plant less estimated future net salvage less depreciation reserve by the estimated remaining life of plant. Applicant shall review the accruals as of January 1 following the year service is first furnished in the area herein certificated 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.

5. Applicant shall submit plans for extension of its public utility gas system to this Commission prior to any extension of gas service outside of Tract No. 1 of Rolling Green Terrace.

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

7. Applicant shall file with this Commission a copy of any future agreement executed by applicant for maintenance and inspection services which revises, supersedes or cancels the existing contract between applicant and Turner Gas Co., dated July 23, 1965.

8. A certificate of public convenience and necessity is granted to Rolling Green Utilities, Inc., authorizing it to construct a public utility water system to serve Rolling Green Terrace, near Big Pine, Inyo County, as shown on Exhibit "A" attached to the application.

9. Applicant is authorized to file, after the effective date of this order, the schedules of rates set forth in Appendix B

to this order, tariff service area maps clearly indicating the boundaries of the certificated area, appropriate general rules, and copies of printed forms to be used in dealing with customers. Such filing shall comply with General Order No. 96-A and the tariff schedules shall become effective on the fourth day after the date of filing.

10. Applicant shall prepare and keep current the system map required by paragraph I.10.a. of General Order No. 103. Within ninety days after the effective date of this order, applicant shall file with the Commission, two copies of this map.

11. For the year 1965, applicant shall apply a depreciation rate of 2.0 percent to the original cost of depreciable water 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 the 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.

12. The authority granted herein shall expire unless the designated tariff sheets are filed within one year after the effective date of this order.

13. Prior to the date service is first furnished to the public under the authority granted herein, applicant shall apply to the appropriate public health authority having jurisdiction for a water supply permit for the proposed System and submit written notice thereof to this Commission.

14. Applicant, on or after the effective date hereof and on or before December 31, 1965, may issue not to exceed 5,430 shares of its \$10 par value common capital stock at par for the purposes set forth in the foregoing opinion.

15. 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.

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

Dated at San Francisco, California, this 28<sup>th</sup> day of SEPTEMBER, 1965.

Fredrick B. Goldblatt  
President  
Augusta  
William Van Beuren

Commissioners

Commissioner Peter E. Mitchell, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioner George G. Grover, being necessarily absent, did not participate in the disposition of this proceeding.

## Schedule No. G-80

GENERAL SERVICEAPPLICABILITY

Applicable to general service of propane gas for cooking, water heating, space heating and other domestic and commercial uses.

TERRITORY

A subdivision of the Southwest 1/4 of the Northwest 1/4 and the Northwest 1/4 of the Southwest 1/4, all in Section 7, Township 9 South, Range 34 East, M.D.B. & M.

RATES

	<u>Per Meter</u> <u>Per Month</u>
First 8 Therms* or Less	\$ 2.50
Next 32 Therms, per Therm	23.0¢
Over 40 Therms, per Therm	22.0¢

\*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 11-3/4 cents per gallon.

	<u>Per Meter Per Month</u>
Minimum Charge	\$2.50

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 \$30.00.

(continued)

APPENDIX A  
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Schedule No. G-80

GENERAL SERVICE

SPECIAL CONDITIONS (Contd)

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 11.75¢ per gallon, the change in rate to be the nearest 0.5¢.

3. When a change in 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 or 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.

APPENDIX B  
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all metered water service.

TERRITORY

Rolling Green Terrace and vicinity, adjacent to Highway No. 395, located approximately one mile northwest of Big Pine, Inyo County.

RATES

Per Meter  
Per Month

Quantity Rates:

First	1,000 cu.ft. or less . . . . .	\$4.50
Next	2,000 cu.ft., per 100 cu.ft. . . . .	.30
Next	7,000 cu.ft., per 100 cu.ft. . . . .	.25
Over	10,000 cu.ft., per 100 cu.ft. . . . .	.20

Minimum Charge:

For	5/8 x 3/4-inch meter . . . . .	\$4.50
For	3/4-inch meter . . . . .	6.50
For	1-inch meter . . . . .	7.50

The Minimum Charge will entitle the customer to the quantity of water which that minimum charge will purchase at the Quantity Rates.



Schedule No. 2R

RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all flat rate residential water service.

TERRITORY

Rolling Green Terrace and vicinity, adjacent to Highway No. 395, located approximately one mile northwest of Big Pine, Inyo County.

RATES

Per Service Connection  
Per Month

For a single-family residential unit, including premises . . . . .	\$5.00
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SPECIAL CONDITIONS

1. The above flat rate applies to service connections not larger than the 3/4-inch in diameter.
2. All service not covered by the above classification shall be furnished only on a metered basis.
3. For service covered by the above classification, if the utility or the customer so elects, a meter shall be installed and service provided under Schedule No. 1, General Metered Service.