

**ORIGINAL**Decision No. 71119

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
 McCLOUD GAS CO., INC. for (i) a  
 certificate of public convenience  
 and necessity authorizing Applicant  
 to construct and operate a public  
 utility gas distribution system in  
 the town of McCloud, Siskiyou County,  
 California and to exercise rights  
 under a franchise granted to  
 Applicant by the Board of Supervisors  
 of Siskiyou County, and (ii) for an  
 order authorizing Applicant to issue  
 and sell up to 15,000 shares of its  
 common stock.

Application No. 48559  
 (Filed June 16, 1966)  
 (Amended July 18, 1966)

Orrick, Dahlquist, Herrington & Sutcliffe, by  
 James F. Crafts, Jr., for applicant.  
Sidney J. Webb and Henry A. Dannenbrink, for  
 the Commission staff.

O P I N I O N

After due notice, public hearing in the matter was held  
 before Examiner Emerson on July 18, 1966, at San Francisco.

Applicant is a California corporation organized in 1965 for  
 the purpose of providing public utility gas service in the town of  
 McCloud, Siskiyou County. It seeks certificates of public convenience  
 and necessity to construct and operate a gas plant and system in  
 McCloud, and to exercise the rights and privileges of a franchise  
 granted to it by the County of Siskiyou. It seeks authority to issue  
 and sell \$150,000 of its capital stock. By oral amendment made at  
 the hearing, applicant also seeks authority to utilize direct-fired  
 vaporizers.

The town of McCloud has been a "company town" for many  
 years, all residences and other buildings therein having been owned  
 by The McCloud River Lumber Company. About 2-1/2 years ago

U. S. Plywood Corporation acquired the assets of The McCloud River Lumber Company, including the town of McCloud, and subsequently arranged for the sale of the commercial and residential portions of the town to John W. Galbreath & Co. The latter is refurbishing the residential and commercial structures and is offering such structures, as well as the building lots, for sale. Among other reasons, Galbreath desires underground distribution of utility gas service as a means of enhancing the attractiveness of the community. At the present time, the majority of the commercial establishments use steam (supplied from the lumber mill) to satisfy their water heating and space heating requirements. Residential structures are using wood, oil, steam and tank gas for cooking, water heating and space heating purposes. An actual survey of the community has disclosed that there are 30 commercial establishments and 570 dwellings (including homes and multiple dwellings) which are potential customers for central station gas service. If the refurbishing plans and sales of structures are completed according to present plans, applicant will have an assured market of at least 80 percent of the residences and substantially all of the commercial establishments.

Applicant proposes to construct a distribution system consisting, initially, of 4,090 feet of 4-inch mains, 25,165 feet of 2-inch mains and 11,105 feet of 1-1/4-inch mains, together with service connections, meters and regulators. Bulk storage of propane will be provided by one 30,000-gallon tank. An 800-gallon per hour "Algas" direct-fired vaporizer will be used and a 400-gallon per hour direct-fired vaporizer will serve for standby service. The storage capacity is sufficient to supply 12 days of peak usage without replacement. The entire system has been engineered for distribution.

of either natural or propane gas, the latter being the type of gas to be served until such time as natural gas may be available. The average heating value of the propane gas to be supplied will be about 2,100 btu per cubic foot.

It is estimated that the total cost of plant will reach \$254,300 by the end of 1968, with about \$217,000 of such amount being required for construction during 1966. Applicant's initial financing plans contemplate a total capitalization of approximately 50 percent stock equity and 50 percent borrowed funds. Its immediate cash requirements would be met by open account advances from its parent (Pacific Delta Gas, Inc.) with interest thereon at a rate based upon the rate currently paid by its parent for borrowed funds (currently assumed to be 6-1/4 percent). From time to time during the first two years, a portion of such open account advances would be extinguished by issuing common stock in cancellation thereof. The purposes for which stock will be issued are the procurement of the following:

Intangible plant	\$ 2,500
Structures	2,000
Storage Plant and Vaporizers	40,500
Distribution Mains	90,000
Services	50,400
Meters	22,500
Pumping & Regulating Equipment	1,500
Office Furniture & Equipment	1,200
Transportation Equipment	3,500
Work Equipment	4,500

Applicant's parent, Pacific Delta Gas, Inc., is a holding company organized in California on April 27, 1947, to serve as a buying organization for a group of liquified petroleum (LP) gas dealers. In 1962 most of these dealers exchanged their stock for shares of Pacific Delta and Pacific Delta also acquired other LP gas businesses both directly and through subsidiaries. Presently,

Pacific Delta is now engaged, through subsidiaries, in the transport and distribution of LP gas and related equipments in the states of California, Nevada, Washington and Oregon. Its principal office is in San Jose, California. It has a \$1,000,000 line of credit with Bank of America against which there are no present borrowings. Pacific Delta's resources are fully available to applicant which will be a wholly owned subsidiary of Pacific Delta.

Applicant has proposed gas rates which for a normal residential customer would be approximately 25 percent less than the cost of tank gas to such customer. The basic rates contemplate billing on a therm basis (a therm is 100,000 btu) and are as follows:

	<u>Per Meter</u> <u>Per Month</u>
First 2 therms or less	\$2.50
Next 18 therms, per therm	.18
Next 30 therms, per therm	.16
Over 50 therms, per therm	.15

Applicant's rate proposal originally included a provision for "escalation" of the basic rates depending upon the posted price of propane in the San Francisco Bay area; however, during the hearing such clause was withdrawn from the proposal.

Applicant's estimates for first and second-year utility operations are summarized as follows:

Estimated Results of Operations

<u>Item</u>	<u>Amount</u>	
	<u>1966</u>	<u>1967</u>
Revenues	\$ 88,500	\$112,100
Expenses	78,700	96,800
Net Revenue	9,800	15,300
Rate Base	220,600	230,500
Rate of Return	4.44%	6.64%

The franchise granted to applicant by Siskiyou County (Ordinance No. 411) became effective on April 22, 1965, is of

indeterminate term and is subject to payment to the county of two percent of annual receipts, commencing the sixth year after its granting. The total cost of the franchise was \$2,370.99 with \$160 thereof to the County of Siskiyou, \$1,808.49 for legal fees and \$402.50 as the costs of publication.

No person has communicated with the Commission or appeared at the hearing in opposition to the granting of applicant's requests.

The first group of renovated residences is now ready for sale and for use of utility gas service. Early completion of the gas system is therefore desirable. Further, heavy winter snows in the area will greatly impede construction and thus it is imperative that utility construction work be commenced at the earliest time possible.

The Commission makes the following findings:

1. Public convenience and necessity require and will require that applicant construct and operate the gas plant, as proposed, for the purpose of rendering public utility gas service to the community of McCloud, Siskiyou County, California.

2. Public convenience and necessity require and will require that applicant exercise the rights and privileges of the franchise granted by Ordinance No. 411 (dated March 23, 1965 and effective April 22, 1965) of the Board Supervisors of Siskiyou County.

3. Applicant should be authorized to install and utilize direct-fired vaporizers on its system.

4. The public convenience and necessity will best be served if applicant commences construction at the earliest possible date and that, for such purpose, the order herein should be made effective on the date hereof.

5. Applicant should be authorized to file its proposed rates for the gas service to be rendered and should be required to report to this Commission, in detail, the financial results of its operations thereunder for the calendar year 1968.

6. Applicant should be required to use the straight-line remaining life method of depreciation accounting for utility plant items and to maintain its books of account in accordance with the uniform system of accounts for gas corporations prescribed by the Commission.

7. Applicant should be authorized to issue and sell \$150,000 of its capital stock as requested; the Commission further finds that the money, property or labor to be procured or paid for by the issuance of the 15,000 shares of \$10 par value shares of stock hereinafter authorized is reasonably required for the purposes hereinabove stated, which purposes are not in whole or in part reasonably chargeable to operating expenses or to income.

The certificates issued herein are subject to the provision of law that:

The Commission shall have no authority to authorize the capitalization of certificates of public convenience and necessity in excess of the amount (exclusive of any tax or annual charge) actually paid to the State or political subdivision thereof as the consideration for the issuance of such certificates of public convenience and necessity or right.

Applicant and its shareholders are placed on notice that this Commission does not regard the number of shares outstanding, the total par value of the shares, the dividends paid nor any amount of debt which may in the future be authorized, as measuring the rate of return which applicant should be allowed on its investment in plant nor indicative of amounts to be included in proceedings for the determination of just and reasonable rates. Further, notice is given that its relationship with its parent or any other associated or

affiliated companies will be closely scrutinized from time to time by the Commission.

O R D E R

IT IS ORDERED as follows:

1. Certificates of public convenience and necessity are hereby granted to McCloud Gas Co., Inc. as follows:

- (a) To construct and operate a gas plant for the generation, storage, transmission, distribution and sale of gas to the public within the area depicted on Exhibit B attached to the application herein.
- (b) To exercise the rights and privileges granted to McCloud Gas Co., Inc. by Ordinance No. 411 of the Board of Supervisors, Siskiyou County, dated March 23, 1965.

2. McCloud Gas Co., Inc. is hereby authorized to utilize an "Algas" 800-gallon per hour and an "Algas" 400-gallon per hour direct-fired hydrocarbon vaporizer, as primary and stand-by generating sources respectively, as contemplated by this Commission's General Order No. 94-A, which order, insofar as applicable, is hereby made a part of this order.

3. McCloud Gas Co., Inc. is authorized to file with this Commission, on or after the effective date of this order and in conformity with the provisions of General Order No. 96-A, the schedule of rates set forth in Exhibit E attached to the application herein; except that the "Special Condition" thereon set forth shall be deleted therefrom and the minimum heating value in btu per cubic foot shall be added thereto; and (together with tariff service area map, rules and forms governing relations with the public, acceptable to the Commission) on not less than five days' notice to the public and to this Commission, to make said rates, maps, rules and forms effective as of the date public utility gas service is first rendered to the public.

4. McCloud Gas Co., Inc., on or after the effective date of this order and on or before July 1, 1968, may issue and sell not to

exceed 15,000 shares of its common stock at \$10 per share for the purposes stated in the foregoing opinion and 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.

5. McCloud Gas Co., Inc. shall make accruals for depreciation by dividing the original cost of depreciable plant, less estimated salvage value less depreciation reserve, by the estimated remaining life of the plant; shall review said accruals by accounts whenever major changes in plant composition occur and at intervals of not longer than five years. The results of such reviews shall be submitted to this Commission.

6. The certificates of public convenience and necessity hereinabove issued will expire and be of no further effect unless exercised prior to July 1, 1967. If said certificates are exercised, McCloud Gas Co., Inc. shall notify this Commission in writing of the date on which public utility service is first rendered to the public, within five days thereafter.

The effective date of this order shall be the date hereof.

Dated at San Francisco, California, this 16<sup>th</sup> day of AUGUST 1966.

1966.

[Signature]  
President

[Signature]

[Signature]

[Signature]  
Commissioners

Commissioner Frederick B. Holoboff, being necessarily absent, did not participate in the disposition of this proceeding.