

**ORIGINAL**Decision No. 71411

## BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Investigation on the Commission's own motion into the reasonableness and propriety of rates, classifications, rules, contracts or practices of PACIFIC GAS AND ELECTRIC COMPANY in the proposed service of natural gas in the Healdsburg - Ukiah area.

Case No. 8491  
(Filed August 2, 1966)

In the Matter of the Application of CLOVERDALE GAS COMPANY and PACIFIC GAS AND ELECTRIC COMPANY for an order authorizing, among other things, the former to sell and convey to the latter the public utility propane gas system in the City of Cloverdale, in accordance with the terms and conditions of an agreement dated December 2, 1965.

Application No. 48345  
(Filed March 25, 1966)

(Gas)

In the Matter of the Application of PACIFIC GAS AND ELECTRIC COMPANY for an order authorizing PGandE, among other things (1) to construct the herein described natural gas project and exercise franchises relating thereto, and (2) to supply natural gas service in the cities of Ukiah and Cloverdale, and in the unincorporated counties of Sonoma and Mendocino, at filed and effective rules, rates and charges.

Application No. 48517  
(Filed May 31, 1966)

(Gas)

F. T. Searls, John C. Morrissey, John A. Sproul and Ross Workman, for Pacific Gas and Electric Company, applicant and respondent.  
Harold A. Irish, for City of Ukiah, interested party.  
Colin Garrity, for the Commission staff.

O P I N I O N

Pacific Gas and Electric Company (PGandE), a corporation, by Application No. 48517, filed May 31, 1966, seeks (1) a certificate of public convenience and necessity to construct, operate,

maintain and use a natural gas pipeline in order to furnish natural gas to and in the Cities of Ukiah and Cloverdale and the unincorporated areas adjacent to the gas mains to be installed, (2) a certificate to exercise franchise rights granted by Mendocino County, and (3) authority to furnish and supply natural gas service under existing rules, rates and charges.

By Resolution No. G-1322, issued May 24, 1966, the Commission authorized tariff schedules proposed by an Advice Letter filing (No. 543-G) relating to the proposed natural gas service. By Decision No. 70947, issued ex parte in Application No. 48345 on July 12, 1966, the Commission, among other things, authorized the rates proposed in such application for natural gas service to the City of Cloverdale. These authorized rates, as a practical matter, can be applied only at such future time as natural gas is available from the proposed extension of a gas transmission main from the vicinity of Healdsburg to Ukiah by way of Cloverdale. Each of these authorizations was issued prior to the filing of the application for certificates and a showing as to the feasibility of the natural gas project proposed in Application No. 48517. The Commission on its own motion, therefore, instituted an investigation (Case No. 8491, August 2, 1966) into the reasonableness and propriety of the rates made effective by said Resolution and Decision for the purpose of determining whether they should be modified. The matters, thus consolidated, were the subject of public hearing held before Examiner Emerson on August 11, 1966 at Ukiah. Submission was taken subject to the receipt of a late-filed exhibit, now in hand, and the matters are now ready for decision.

PGandE owns and operates an extensive natural gas transmission and distribution system in northern and central

California. In Sonoma County it serves, among other cities and towns, Santa Rosa and Healdsburg and the northernmost end of its transmission main in such county is in the vicinity of Healdsburg. After reinforcing approximately nine miles of a portion of the main between Santa Rosa and Healdsburg with an additional 12-inch transmission main, PGandE proposes to extend a 12-inch main approximately 49.44 miles northerly to a terminus at the plant of the Masonite Corporation at the north end of Ukiah. En route, distribution systems would be constructed in the communities of Lytton, Geyserville, Asti, Hopland and Talmage and existing distribution systems (whereby propane gas is now supplied) in the Cities of Cloverdale and Ukiah would be expanded. It is this extended system for which PGandE seeks a certificate of public convenience and necessity.

The City of Ukiah operated a propane-air gas system within the city for many years. After negotiations with the city and a favorable vote of the electorate, PGandE purchased the city's system and has been operating it since February 26, 1965. Pursuant to Commission authorization, PGandE, since such date, has been charging rates identical to those theretofore charged by the city. As of February 1966, this system was supplying 1,354 customers in Ukiah.

Within the City of Cloverdale, Cloverdale Gas Company, a public utility, has been serving propane gas for a number of years. Sale of the gas system in Cloverdale to PGandE was authorized by the Commission on July 12, 1966, and the transfer will be consummated when natural gas is available in Cloverdale. During 1965, this system served an average of 601 customers.

Upon completion of the natural gas project, PGandE will abandon the propane vaporizer plants at Ukiah and Cloverdale.

The estimated capital costs of the project, excluding the 9 miles of main reinforcement, are as follows:

Estimated Capital Costs

Transmission Facilities

|                                    |               |
|------------------------------------|---------------|
| Rights of way                      | \$ 283,700    |
| 49.44 miles of 12-inch main        | 2,682,600     |
| Regulators to distribution systems | <u>33,300</u> |
|                                    | 2,999,600     |

Distribution Facilities

|                                 |                |
|---------------------------------|----------------|
| Mains:                          |                |
| Lytton                          | \$ 8,780       |
| Geyserville                     | 18,160         |
| Asti                            | 7,560          |
| Cloverdale                      | 91,138         |
| Hopland                         | 12,030         |
| Talmage                         | 135,842        |
| Ukiah                           | <u>295,230</u> |
|                                 | 568,740        |
| Services, meters and regulators | <u>552,220</u> |
| Total estimated cost            | \$4,120,560    |

PGandE acquired the City of Ukiah propane system for \$725,000. The estimated historical cost (original cost, estimated where unknown) of such system is \$542,855 and the depreciation reserve requirement therefor amounts to \$196,365, thus leaving a net depreciated historical cost of \$346,490 for the acquired system. Certain materials and supplies, amounting to \$2,528 were also acquired, thus the net acquisition amounted to \$349,018. The excess between the purchase price and the net acquisition, or \$375,982, will be debited to "Unappropriated Earned Surplus". While consummation of the sale of the Cloverdale system is not complete, the purchase cost to PGandE will approximate \$291,580 and the depreciated historical cost is about \$138,660, with a

resulting excess purchase price over depreciated historical cost of \$152,920, which excess will be charged to Account 114-Gas Plant Acquisition adjustments and subsequently disposed of as the Commission may approve or direct. Further, when the retirements of the propane-gas production facilities are taken into account, instead of a total purchase price of \$1,016,000 becoming a part of PGandE's rate base (as shown on Attachment C to Advice Letter 543-G), a net of no more than \$410,800 will be added to system rate base as a result of acquiring the two systems.

PGandE's estimate of third-year operating results assumes that service will be rendered to 4,455 firm customers and to 14 interruptible customers. Signed applications from prospective customers presently total 979, with 424 of them being located along existing mains in the City of Ukiah. Prospective industrial customers, such as packing, winery, lumber and laundry companies and hospitals are distributed along the length of the project approximately as follows: (The balance are commercial and residential users.)

| <u>Location</u> | <u>Industry</u> |                          |
|-----------------|-----------------|--------------------------|
|                 | <u>Firm Gas</u> | <u>Interruptible Gas</u> |
| Ukiah           | 1               | 4                        |
| Talmage         |                 | 3                        |
| Cloverdale      | 3               | 4                        |
| Asti.           |                 | 2                        |
| Geyserville     |                 | 1                        |
| Lytton          | 1               |                          |

Third-year expected peak-hour firm demand is 257 Mcf/hr and interruptible demand is 383 Mcf/hr. The system is designed to supply 6,700 customers ultimately, with capacity provided for a 20 percent growth in interruptible business.

Estimated third-year results of operations (as shown in detail on Exhibit No. 1) may be summarized as follows:

Results of Operation - Third Year

| <u>Item</u>             | <u>Amount</u>    |
|-------------------------|------------------|
| Operating Revenues      |                  |
| General Service         | \$ 626,300       |
| Firm Industrial         | 2,300            |
| Interruptible           | 818,100          |
| Total                   | <u>1,446,700</u> |
| Operating Expenses      | 1,204,900        |
| Net Revenue             | 241,800          |
| Rate Base (depreciated) | 4,430,400        |
| Rate of Return          | 5.46%            |

The revenue estimates shown in the above tabulation are predicated on PGandE's tariff schedules G-6.2, G-40.1 and G-50, and a heat content of 1,050 btu per cubic foot. (The Commission takes official notice that Schedule No. G-6.2 filed as part of Exhibit E in the application as well as Schedule No. G-82 covering the existing propane service to the City of Ukiah were replaced by therm-rate schedules which became effective on August 29, 1966.) Schedules G-6.2 (general service) and G-40.1 (firm industrial service) are "surcharge type" rates applied in special rate areas wherein normal rates would produce insufficient revenues to justify providing gas service. In such respect, they were originally designed to produce systemwide average earnings from the areas to which they applied.

In the last general rate proceeding for PGandE's gas department, the Commission authorized rates which would produce a rate of return of 6.25 percent. It seems readily apparent, therefore, that rate schedules G-6.2 and G-40.1 will not provide

average earnings for the Healdsburg-Ukiah project by the third year of operations and are deficient in such respect by about \$35,000 in annual net revenue. If PGand E's systemwide earnings were to remain at the 6.25 percent rate of return level and G-6.2 and G-40.1 rates were to be applied to this project, it would necessarily follow that customers elsewhere on the system would have to take on the burden of the revenue deficiency of this project. The alternatives are to apply rates higher than G-6.2 and G-40.1, or to place the added burden on the stockholders of PGandE. In the light of PGandE's Advice Letter statement that such rates "will return to the Company a reasonable revenue for the service provided and...will prevent such service from becoming a burden on the Company's other customers", the latter alternative will prevail.

Under Schedule G-6.2, propane customers using more than 336 cubic feet of gas per month on the Cloverdale system and more than 1,508 cubic feet per month on the Ukiah system would experience reductions in their monthly gas bills. Approximately 521 customers in Cloverdale and 1,172 customers in Ukiah would be so affected and in the aggregate their savings would amount to about \$97,227 on an annual basis.

Those using lesser quantities of gas would find their bills increased. Based upon the latest data available in the record in this proceeding, 192 customers would have increased gas costs on an annual basis, while 593 other customers who would have increases in one or more months would receive reductions on an annual basis. On a single-month basis, increases would be as much as 115 percent (a Ukiah user of 400 cubic feet per month). Those who would experience such an increase are the so-called

"minimum users". It must be assumed that the needs of these customers are being satisfactorily met by the usage they make of the gas. No convincing reason has been put forth by PGandE as to why these small users should pay increased rates for the amount of service they now use merely because natural gas is brought to the area. If all other users are to receive rate reductions (which will approximate an average reduction of 40 percent), we see no justification for increasing the rates to the small user. It is really heat which is being purchased and it should make no difference to the user if that heat comes from propane or from natural gas; its value is the same to the small user. In view of these circumstances a special rate schedule will be required which eliminates increases to the minimum user. It is anticipated that as gas usage increases, the number of such customers will diminish and at an appropriate time the company may by advice filing transfer the area to the same rates as apply to the balance of the extension.

PGandE has been granted a gas franchise by Ordinance No. 479 of the Board of Supervisors of Mendocino County, at a cost of \$494.70. Such franchise is of indeterminate duration, requires a payment of 2 percent of the gross annual receipts arising from the use, operation or possession of the franchise and was issued April 27, 1965.

By Ordinance No. 568 of the City Council of the City of Ukiah, adopted February 24, 1965, PGandE was granted an indeterminate franchise by said City. By Ordinance No. 266 of the Board of Supervisors of Sonoma County, PGandE was granted an indeterminate franchise, effective March 17, 1948, for such County. A gas franchise was issued to the gas utility in Cloverdale by



Ordinance No. 134 N.S. of the City Council of Cloverdale on December 2, 1952 and such franchise will be transferred to PGandE upon its acquisition of the Cloverdale system. These three franchises are presently in effect and certificates for their exercise have heretofore been issued by this Commission, hence no action is needed herein with respect thereto.

In view of the evidence, the Commission makes the following findings:

1. Public convenience and necessity require and will require that PGandE construct and operate the natural gas project, as proposed, for the purpose of rendering public utility gas service in the cities or communities of Lytton, Geyserville, Asti and Cloverdale and their environs and adjacent unincorporated areas in Sonoma County and in Hopland, Talmage, Ukiah and their environs and adjacent unincorporated areas in Mendocino County.

2. Public convenience and necessity require and will require that PGandE exercise the rights and privileges of the franchise granted by Ordinance No. 479 (dated April 27, 1965) of the Board of Supervisors of Mendocino County.

3. Existing tariffs which pertain to the sale and delivery of natural gas in the area certificated herein should be modified as hereinafter ordered; further, it is found that any increases in rates or charges which may result therefrom are justified and that existing rates and charges insofar as they may differ from those hereinafter ordered are for the future unjust and unreasonable.

4. The public interest requires that any economic burden which may result from the natural gas project herein certificated will not be placed upon users not served by the project. In this respect, the Commission reaffirms its position, stated in other

decisions, that if it should appear in a rate proceeding that the revenue derived from this project is not compensatory, such revenue inadequacy is not to be imposed on other gas customers.

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

The Commission shall have no power 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 to a political subdivision thereof as the consideration for the issuance of such certificates of public convenience and necessity or rights.

It is concluded that the application should be granted to the extent specified in the order which follows.

O R D E R

IT IS ORDERED that:

1. Certificates of public convenience and necessity are hereby issued to Pacific Gas and Electric Company as follows:

- (a) To construct, operate, maintain and use the natural gas project described in Application No. 48517.
- (b) To exercise the rights and privileges granted to Pacific Gas and Electric Company by Ordinance No. 479 of the Board of Supervisors, Mendocino County, dated April 27, 1965.

2. The certificates hereinabove issued will expire and be of no further effect unless exercised prior to December 31, 1967. If said certificates are exercised, Pacific Gas and Electric Company shall notify this Commission in writing of the date on which public utility service is first rendered to the public.

from the aforesaid natural gas project, within five days thereafter.

3. Pacific Gas and Electric Company is authorized and directed 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 attached to this order as Appendix A, together with a Rate Area Map appropriate thereto, and on not less than five days' notice to the public and to this Commission, to make said rates and map effective as of the date public utility natural gas service is first rendered within the City of Ukiah; further, coincidental therewith Pacific Gas and Electric Company shall revise existing tariff sheets for rate schedule G-6.2 in such manner as will clearly exclude the City of Ukiah therefrom and thus make said schedule applicable to all of the aforesaid natural gas project outside of the city limits of the City of Ukiah.

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

Dated at San Francisco, California, this 15<sup>th</sup> day of OCTOBER, 1966.

Walter E. Mitchell  
President

George L. Glover

Frederic B. Hallock

Wogahn

William L. Bennett  
Commissioners

## APPENDIX A

Schedule No. G-6.21  
GENERAL NATURAL GAS SERVICEAPPLICABILITY

Applicable for natural gas service to domestic and commercial customers only, for gas used for cooking, water heating and all other purposes at the option of the customer.

TERRITORY

Within the City of Ukiah.

RATES

| Commodity Charge: |                                | <u>Per Meter</u><br><u>Per Month</u> |
|-------------------|--------------------------------|--------------------------------------|
| First             | 4 therms or less .....         | \$ 1.20                              |
| Next              | 16 therms, per therm .....     | 19.00¢                               |
| Next              | 5 therms, per therm .....      | 10.73                                |
| Next              | 175 therms, per therm .....    | 9.49                                 |
| Next              | 800 therms, per therm .....    | 8.37                                 |
| Next              | 49,000 therms, per therm ..... | 8.06                                 |
| Over              | 50,000 therms, per therm ..... | 7.20                                 |

The number of therms used for billing under this schedule shall be determined by application of a therm conversion factor as set forth in Rule No. 2(D).