

Decision No. 74169

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
SAN DIEGO GAS & ELECTRIC COMPANY, a)
Corporation, for a Certificate of)
Public Convenience and Necessity)
Authorizing It to Exercise Its Gas)
Franchise Rights in an Area Located)
in the Eastern Portion of the County)
of San Diego; and for a Certificate)
of Public Convenience and Necessity)
Authorizing the Extension of Its)
Natural Gas Service to and Within)
Such Area, Authorizing the Construc-)
tion, Operation and Maintenance of)
Certain Liquefied Natural Gas)
Facilities; and for Authorization to)
Place New Gas Tariffs into Effect;)
and for Authorization of Agreements)
Between SAN DIEGO GAS & ELECTRIC)
COMPANY and the Borrego Mobile Park)
Company, Inc. Concerning the Con-)
struction, Operation and Maintenance)
of Certain Liquefied Natural Gas)
Facilities.)

Application No. 49803
(Filed November 15, 1967)

Chickering & Gregory by Sherman Chickering,
C. Hayden Ames and Donald J.
Richardson, Jr.; and Stanley Jewell;
for applicant.

Higgs, Jennings, Fletcher and Mack by
DeWitt A. Higgs and Charles Gorder,
for Western Liquid Gas Association,
H. H. Hatch, Mountain Gas Service,
Pargas, Inc., Rockgas Service Co.,
San Diego Liquid Gas & Appliance Inc.,
Suburban Gas, Vangas, Inc., and
Welch's Propane Service; and
Leo R. B. Henrikson, for Rockgas
Service Co., Inc.; protestants.

Robert C. Durkin, for the Commission
staff.

O P I N I O N

By this application, San Diego Gas & Electric Company seeks authority to extend natural gas service to and within the so-called "Borrego Area" in eastern San Diego County. In so doing, applicant

places before us the emerging and perhaps, in time, widely useful concept of making natural gas service available in remote areas by means of liquefied natural gas (LNG).

Public hearings were held in this matter before Examiner Main on February 8, 9 and 13, 1968 at Los Angeles and the matter was submitted on the last-named date.

Borrego Area is economically unreachable by gas pipeline from applicant's existing service area. It comprises approximately 600 square miles of undeveloped or sparsely developed territory and represents the proposed service area set forth in Exhibit C attached to the application.

Applicant's showing in support of the application relates primarily to its proposal to serve the Road Runner Mobile Home Park¹ (Road Runner) located immediately north of Palm Canyon Road between Di Giorgio and Borrego Valley Roads, near the community of Borrego Springs. In fact, no other specific service proposals or projects for Borrego Area were brought forth by applicant on this record.

While we are uncertain as to the size of the area to be occupied by Road Runner under present plans of development, it is clear that such area does not exceed the approximately 275 acres of land acquired in this general area by Borrego Mobile Park Company, Inc., the developer and operator of Road Runner. Thus, Road Runner accounts for but a minimal part of the overall proposed service area in any event.

¹ Also referred to in this record as Roadrunner Club.

In the absence of other specific service proposals or projects, applicant's request for such a large new service area appears premature at this stage. We recognize, however, that a need for large service areas may evolve as a practicable and viable means of accommodating service extensions by means of LNG under any widespread demand in the future.

There is no question that gas service will be needed at Road Runner.

The protestants are Western Liquid Gas Association and the eight distributors of liquefied petroleum gas (LPG) in San Diego County named in the list of appearances on page 1. They contend that applicant's proposed extension of natural gas service into Borrego Area is not in the public interest. Their contention is based upon the availability of LPG service. But conspicuous by its absence in this record is an expression of unequivocal willingness on the part of any one of the protestant LPG distributing companies to undertake the obligations of public utility status and regulation by this Commission.

Protestants were fully aware that plans for gas service at Road Runner call for a piped distribution system, individually metered services and the rendering of this service by other than the owner of Road Runner. Service rendered in this manner falls

within the purview of Sections 216(b), 221 and 222 of the Public
2
Utilities Code.

There is no firm proposal for gas service by any of the
protestants which constitutes an appropriate alternative to
applicant's proposed service at Road Runner.

2 Section 216(b). Whenever any common carrier, toll bridge corporation, pipeline corporation, gas corporation, electrical corporation, telephone corporation, telegraph corporation, water corporation, wharfinger, warehouseman, or heat corporation performs a service or delivers a commodity to the public or any portion thereof for which any compensation or payment whatsoever is received, such common carrier, toll bridge corporation, pipeline corporation, gas corporation, electrical corporation, telephone corporation, telegraph corporation, water corporation, wharfinger, warehouseman, or heat corporation, is a public utility subject to the jurisdiction, control, and regulation of the commission and the provisions of this part.

Section 221. "Gas plant" includes all real estate, fixtures, and personal property, owned, controlled, operated, or managed in connection with or to facilitate the production, generation, transmission, delivery, or furnishing of gas, natural or manufactured, for light, heat, or power.

Section 222. "Gas corporation" includes every corporation or person owning, controlling, operating, or managing any gas plant for compensation within this State, except where gas is made or produced on and distributed by the maker or producer through private property alone solely for his own use or the use of his tenants and not for sale to others.

We must observe, however, that the participation by protestants served a useful purpose. It brought out that at present LPG service could probably be provided at a lower cost than LNG service. While a comparison of estimated total costs of service at Road Runner would not be meaningful because of differences in estimated loads and other factors, the following comparison of certain fundamental differences in costs will serve as an indicator:

An 8¢ per gallon cost of LPG delivered into storage at Road Runner has a natural gas cost equivalent of 95¢ per Mcf on the basis of BTU contents;³ for LNG delivered into storage at Road Runner, applicant developed an estimated average cost of 110¢ per Mcf of natural gas. Protestants estimate that LPG storage and vaporization plant to serve Road Runner would cost \$14,300; applicant shows an estimated cost of \$41,607 for the LNG storage and vaporization plant installed there. These fundamental differences would have the effect of reducing the total cost of service by roughly 20 percent if translated into computations of applicant's cost of service.

Although cost of service is an important consideration, we do not intend to suggest in any way that applicant's pioneering-type project would necessarily be rejected if there were a firm proposal for regulated LPG service at Road Runner, since many other considerations are involved. There may be a basic preference on the part of many customers for natural gas service, for service from applicant, a major utility with an established reputation for reliable service, or for the convenience of receiving both gas and electric service at Road Runner from the same utility.

³ Propane - 91,300 BTU per gal.; natural gas - 1080 BTU per CF.

We also see the desirability of not upsetting applicant's commitment to introduce natural gas service at Road Runner, which, as a deluxe-type development, represents a service area well suited to this initial stage in natural gas service by means of LNG. Pioneering efforts of this type appear to hold some promise of serving the public interest beyond the confines of Road Runner. If given an opportunity to get started, they may serve as building blocks toward a market for lower cost cryogenic facilities manufactured expressly for storing and handling small volumes of LNG, a realization of some so-called "economies of scale," and a widespread use of LNG as a means of extending natural gas service to remotely-situated communities and developments.

Further, where a LNG supply is used to render natural gas service, an eventual change to a natural gas supply by the conventional pipeline means would be convenient and readily accomplished. In a conversion to natural gas from LPG service, gas appliances require adjustments under a work program coordinated with the progress of the conversion of product taking place in the distribution system. If house, service, and distribution piping are not sized for natural gas, the conversion would obviously then present many problems and involve substantial expenditures.

Under the first phase development, now nearing completion, Road Runner will include 144 mobile home spaces, a community center or club house, and an 18-hole golf course. While present plans also call for increasing the number of mobile home spaces to 300, it appears that the construction of such additional spaces will depend upon future demand. The mobile home spaces are to be leased on an annual basis to occupants.

To serve the first phase development, LNG will be supplied from applicant's LNG plant in Chula Vista by tanker truck to the vacuum-insulated, cryogenic storage vessel of 7,750-gallon capacity (equivalent to 639 Mcf of natural gas) installed at Road Runner. An ambient air-type vaporizer, sized to deliver up to 9,000 standard cubic feet per hour, will supply natural gas, after being odorized, to the distribution system at a pressure of 30 psig.

As to the design, construction, operation and maintenance of the LNG and natural gas facilities installed at Road Runner, applicant states that all applicable parts of General Orders Nos. 94-A and 112-B and of NFPA Bulletin No. 59-A (Liquefied Natural Gas at Utility Gas Plants) will be met. In addition, the necessary clearances for deliveries by the tanker truck have been obtained from the California Highway Patrol.

The estimated cost of LNG facilities and the distribution system is \$87,729 and the estimated annual fixed charges, operating, and maintenance costs based on the first full year of operations are \$25,012. These costs exclude the costs pertaining to the 116 unmetered gas street lights to be installed at Road Runner. The lights and associated facilities represent an estimated investment of \$27,588 and the estimated annual fixed charges, operating, and maintenance costs are \$6,940. As set forth in Exhibit "F" attached to the application, applicant has developed a monthly charge of \$5.00 per lamp. These lamps provide a steady load which exceeds by an ample margin the boiloff from the LNG storage.

Applicant proposes to render service at Road Runner under Schedule G-4, which applies to all areas in which applicant renders natural gas service other than those in Rate Zones Nos. 1, 2 and 3, supplemented by proposed Schedule GL-1 (Exhibit "G" attached to the application). The latter schedule sets forth a facility charge which is applied as follows:

Domestic Use \$6.55 per family accommodation per month.

Non-Domestic Use .. 3.45¢ per month per cfh of connected load.

The development of this facility charge is set forth in Exhibit "D" attached to the application. In essence, the charge is designed to recover the difference between the total cost of service and the revenues generated under Schedule G-4 and does so in relation to connected loads.

Exhibit "E" attached to the application includes the master agreement concerning natural gas service at Road Runner entered into by applicant and Borrego Mobile Park Company, Inc. and the related main extension and service extension agreements. Two matters concerning applicant's rate proposal and the master agreement will be examined further.

To support its position on one of these matters, applicant developed, in essence, the following summary of annual costs and revenues for service at Road Runner:

<u>Annual Unit Costs</u>			
	<u>Mobile Homes Only</u>	<u>Other Use</u>	<u>Complete Project</u>
	- Cents per Mcf -		
Central LNG Plant			
Liquefaction	16.3	16.3	16.3
Central Storage	12.2	3.9	8.6
Cost of Gas	32.6	32.6	32.6
Total Central LNG Plant	61.1	52.8	57.5
Transportation	88.0	5.5	52.3
Remote Storage	88.0	23.1	59.9
Distribution System	130.1	1.9	74.7
TOTAL	367.2 (a)	83.3 (b)	244.4
 <u>Annual Revenues</u>			
Revenue from Schedule G-4	\$ 8,981.73	\$ 3,411.31	\$12,393.04
Revenue from Schedule GL-1	11,318.40	1,302.00	12,620.40
TOTAL	20,300.13	4,713.31	25,013.44
Annual Sales - Mcf	5,813.6	4,419.9	10,233.5
Total Revenue - Cents per Mcf	349.2	106.6	244.4

(a) - Represents unit cost for system to serve mobile homes only.

(b) - Represents incremental cost of serving community center, utility building, and 4 metered gas lights.

Protestants contend that the proposed rates would result in an average unit revenue from service to the Community Center which would fall short of producing the average annual unit cost of the central LNG plant plus transportation of LNG to Borrego so that the park owner would be subsidized. While the rates should be designed to recover overall average unit costs, they should also give cost recognition to the different load characteristics of customers. The point in contention is, in substance, what is a reasonable relationship of average unit revenue levels for mobile home gas use, on the one hand, and the community center use, on the other, while recovering the total revenue requirement of approximately \$25,000.

The mobile homes represent space heating, water heating, and cooking loads, and are estimated by applicant to have an occupancy rate of about 50 percent during the period May through September, inclusive; the community center's annual load is estimated by applicant to be 4,225 Mcf, of which 2,720 Mcf or 64 percent represents an air conditioning load.

Because a difficult fact question is presented, we have examined in principle a number of alternative methods of distributing the revenue requirement. Such methods include (1) adopting the unit revenue relationship resulting from the application of Schedule G-4 as the pattern for distributing the total revenue requirement, (2) distributing the portion of the total revenue requirement, which applicant proposes to recover through the facility charges set forth in proposed Schedule GL-1, on the basis of coincident peak demands, and (3) increasing the revenue which would be produced under Schedule G-4 by restricting the use of its last two rate blocks to the billing periods ending in the months of May to October, inclusive (thus, in other billing periods, the commodity charge for quantities in excess of 3,000 cubic feet would be \$.1014 per hundred cubic feet) and reducing revenue from proposed Schedule GL-1 by the same amount.

We do not consider that methods 1 and 2 above reflect a proper recognition of either the installed system's capability to serve throughout the year in light of the vacancy factor of the mobile homes or the large air conditioning load of the community center. Method 3 is directed toward such recognition and is considered reasonable for the developmental stage of the proposed service. As experience is gained as to actual loads and operating results, this matter can, of course, be reviewed.

The other matter concerns obligations for payment of minimum charges during the first three years in which gas service is rendered to the mobile homes at Road Runner. The pertinent provisions of the master agreement, supra, and proposed Schedule GL-1 are:

Master Agreement

6. Company shall pay the facility charge of \$6.55 per month per family accommodation for 144 initially anticipated family accommodations commencing when Utility is ready to render service. The quantity of 144 will be reduced by one for each executed contract Utility has in force for gas service to a family accommodation within the mobile home park at the time each monthly bill is computed. If any customer should terminate the initial service contract within three years after the date of that agreement, Company shall assume and pay the minimum charges for each such accommodation for the balance of the first three years of that agreement, or until a new customer assumes the balance of the initial contract for that location.

Schedule GL-1

Minimum Charge: The Minimum Charge per meter per month shall be the Facility Charge plus the Minimum Charge designated in the applicable schedule [Schedule G-4].

Special Condition 1. Contract: A contract guaranteeing the payment of the minimum charges for a period of three years will be required for the initial service at each location under this schedule.

Special Condition 2. Termination of Contract: If a customer desires to terminate the contract prior to the expiration of the initial term, the unpaid balance of minimum charges for the remainder of the contract period shall become due and payable unless the customer has arranged with the Utility for the assignment of the contract or the execution of a superseding contract for the remainder of the period.

Since tenants are expected to execute a one-year lease for mobile home space at Road Runner, they may want, and are entitled, to know precisely the extent of their obligation under the three-year contract required by Special Condition 1 of proposed Schedule GL-1.

Applicant's witness on tariff matters testified to the effect that, if a customer at Road Runner desires to terminate service after the first or second year of service, the above-quoted provision from the master agreement would be a basis for an acceptable assignment of the contract required by Special Condition 1; Borrego Mobile Park, Inc.'s president corroborated that his company would accept the assignment. To confirm and assure this, the master agreement and the contracts called for under proposed Schedule GL-1 should be modified to provide explicitly for such assignment.

Findings and Conclusions

The Commission finds that:

1. A need has been shown to exist for public utility gas service at Road Runner Mobile Home Park but not elsewhere in the proposed service area set forth in Exhibit "C" attached to the application.
2. None of the protestant LPG companies has made a firm proposal to render public utility gas service at Road Runner with the intention of becoming a public utility subject to the jurisdiction, control and regulation of this Commission.
3. The economics of the project to provide natural gas service at Road Runner, as supported by the estimates presented by applicant, are not unreasonable.

4. Applicant has the ability to finance, install, operate and maintain LNG storage and vaporization facilities and a natural gas distribution system at Road Runner.

5. The introductory character of the use of LNG to render natural gas service makes it advisable that applicant report promptly to the Commission any malfunctions of the LNG facilities at Road Runner.

6. For application at Road Runner, the last two rate blocks in Schedule G-4 should be in effect only for the billing periods ending in the months of May through October, inclusive, as previously discussed herein; the facility charge under proposed Schedule GL-1 should be recomputed (in the manner set forth in Exhibit "D" attached to the application) to a lower level commensurate with the additional revenue from Schedule G-4. The rates and charges thus resulting under said schedules are reasonable and will be authorized in the order which follows.

7. If modified to provide explicitly, as previously discussed, for assignment of contracts required by Special Condition 1 of proposed Schedule GL-1, the agreements and the sample contract in Exhibits "E" and "G," respectively, attached to the application will not be adverse to the public interest.

8. The staff recommendation that applicant be required to maintain separate records covering LNG/natural gas service at Road Runner and to submit annual cost studies for initial three years of service is reasonable.

9. Public convenience and necessity require the construction and operation by applicant of the natural gas system at Road Runner and the exercise by applicant of the rights and privileges granted by the County of San Diego by Ordinance No. 347, adopted December 9, 1929, within the area occupied by Road Runner and in areas hereafter to be served through extensions to its existing system made in the ordinary course of business as contemplated by Section 1001 of the Public Utilities Code. Existing authorizations for, and limitations placed upon, the exercise of franchise rights granted by said ordinance are set forth in Decision No. 23033 dated November 3, 1930 and Decision No. 42496 dated February 8, 1949, in Application No. 16789.

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

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

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.

The Commission concludes that the application should be granted to the extent set forth in the order which follows.

O R D E R

IT IS ORDERED that:

1. San Diego Gas & Electric Company is granted a certificate of public convenience and necessity to construct, operate and maintain liquefied natural gas facilities and a natural gas distribution system in the area occupied by Road Runner Mobile Home Park located immediately north of Palm Canyon Road between Di Giorgio and Borrego Valley Roads near the community of Borrego Springs.

2. San Diego Gas & Electric Company is granted a certificate of public convenience and necessity to exercise the franchise rights and privileges of Ordinance No. 347 of San Diego County to supply gas in the area certificated in ordering paragraph 1 herein and in areas hereafter to be served through extensions to its existing system made in the ordinary course of business as contemplated by Section 1001 of the Public Utilities Code; to that extent the restrictions imposed by Decision No. 23033 dated November 3, 1930 and Decision No. 42496 dated February 8, 1949, in Application No. 16789, are relaxed; in all other respects, said decisions shall remain in full force and effect.

3. Upon revision of the "Agreement for Natural Gas Service Supplied by Liquefied Natural Gas Facilities to Borrego Mobile Park Company," Exhibit "E" attached to the application, in a manner consistent with findings Nos. 6 and 7 in the above Opinion, San Diego Gas & Electric Company is authorized to carry out the terms of that agreement as so revised and the related main extension and service extension agreements, which are also in Exhibit "E" attached to the application.

4. (a) San Diego Gas & Electric Company is authorized to file after the effective date of this order its proposed Schedule No. GL-1, Service from Liquefied Natural Gas Facilities, and related sample contract form, revised as necessary to conform to findings Nos. 6 and 7 in the above Opinion, and Schedule No. G-4, General Natural Gas Service, presently on file and in effect, revised as necessary to conform to finding No. 6 in the above Opinion and to provide for the application of said schedule to the area certificated herein, to be effective on or before the date service is first rendered to the public. Such filing shall comply with the requirements of General Order No. 96-A.

(b) San Diego Gas & Electric Company shall file coincident with the filing authorized hereinabove revised tariff sheets, including tariff service area map, as are necessary to provide for the application of its Tariff Schedules - Gas Service to the area certificated herein. Such filing shall comply with the requirements of General Order No. 96-A.

(c) Such rate schedules and revised tariff sheets shall become effective upon five days' notice to this Commission and to the public after filing as hereinabove provided.

5. San Diego Gas & Electric Company shall report promptly to the Commission any malfunctions of the liquefied natural gas facilities serving the area certificated herein during the first three years of operation of said facilities.

6. San Diego Gas & Electric Company shall maintain separate records covering natural gas service within the area certificated herein and shall submit to the Commission annual cost studies for such service for three years after the system is first placed in operation.

Except as granted herein, Application No. 49803 is denied.

The authorizations herein granted shall expire unless exercised within one year after the effective date of this order, which shall be twenty days after the date hereof.

Dated at San Francisco, California, this 28th day of MAY, 1968.

[Signature]
President

[Signature]
[Signature]
[Signature]
Commissioners

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