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ORIGINAL

Decision No. \_\_\_\_\_

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
McCLOUD GAS CO., INC., a California  
corporation, for authority to increase  
its rates for gas service.

)  
) Application No. 51716  
) (Filed February 20, 1970)  
)

James F. Crafts, Jr., for McCloud Gas Co., Inc.,  
applicant.  
Robert C. Moeck, for the Commission staff.

O P I N I O N

After due notice, public hearing in this matter was held before Examiner Coffey on May 13, 1970, at McCloud.

Applicant, a California corporation, organized in 1965, began public utility gas service in the town of McCloud, Siskiyou County, in November 1966. It seeks authority to increase its rates for gas service.

Testimony in support of this request was presented by applicant. A financial examiner and an engineer on the staff of the Commission presented the results of their field investigation of applicant's operations. Protestants of the proposed increase argued that applicant has not had sufficient experience in a new business to establish the need for increased rates, that the recent trend of applicant's revenues and expenses indicates the business in the future will earn profits and that a potential for increased usage of service exists. Testimony of applicant that usage is below expectation is supported by protestants who stated that many customers installed gas heaters but continue to use wood. Protests were also based on poor service and high bills.

The town of McCloud for many years was a "company town" until the U.S. Plywood Corporation acquired the assets of The McCloud River Lumber Company and sold the commercial and residential portions of the town to John W. Galbreath & Co. The latter refurbished the residential and commercial structures, replacing steam heat furnished by the mill to commercial establishments and some residences, causing a gas distribution system to be installed by applicant and gas appliances and furnaces to be installed by applicant's parent corporation, a non-utility. Residential structures were using wood, oil, steam and tank gas for cooking, water heating and steam heating purposes. From this record it appears that customers were dissatisfied with the appliance and furnace installations and surprised by the magnitude of their gas bills.

#### Rates

All of applicant's approximately 400 domestic, commercial and industrial customers are served under a single general service rate schedule for propane gas for cooking, water heating and space heating.

The following tabulation compares applicant's present and proposed rates:

#### Rate Comparison

<u>Rates</u>	<u>Per Meter Per Month</u>	
	<u>Present</u>	<u>Proposed</u>
First 2 therms or less	\$2.50	\$3.00
Next 18 therms, per therm	.18	.19
Next 30 therms, per therm	.16	.18
Next 950 therms, per therm	.15	.17
Over 1,000 therms, per therm	.11	.13
Minimum Charge	\$2.50	\$3.00

A protestant testified that the average monthly bill in 1968 for gas service to her five room house, which had been modified to minimize heat loss, was \$34.89, that the total of the gas bills for the first four months of 1970 is \$151.36 and that the bill for one month amounted to \$78.64. The bill of this customer for 213 therms would increase from about \$35 under present rates to \$39.53 under proposed rates, an increase of 13 percent.

Results of Operation

Applicant accepted for the purposes of this proceeding the staff estimates of applicant's operations in the year 1970 as set forth in Table 5 of Exhibit No. 3 and adjustments for annualized franchise tax to be paid in 1970 and the increased cost of propane which became effective in February of this year.

The following tabulation indicates the staff estimates of the results of applicant's operations in the estimated year 1970 under present and proposed rates.

<u>Item</u>	<u>Including Franchise Tax and Gas Cost Increase</u>	
	<u>Present Rates</u>	<u>Proposed Rates</u>
Operating Revenue	\$ 93,400	\$105,200
<u>Operating Expenses</u>		
Production Cost of Gas	50,200	50,200
Distribution-Operation	7,300	7,300
Distribution-Maintenance	800	800
Administration and General	8,100	8,100
Indirect Management	3,500	4,500
Depreciation Expense	7,700	7,700
Amortization	800	800
Other Taxes	6,300	6,300
Franchise Tax	<u>1,900</u>	<u>2,100</u>
Subtotal	86,600	87,800
Net before Return & Income Taxes	6,800	17,400
Income Taxes		
State	100	100
Federal	<u>-</u>	<u>-</u>
Subtotal	100	100
Net for Return	6,700	17,300
Rate Base	241,400	241,400
Rate of Return	2.8%	7.2%

A staff witness testified that he compared applicant's operations with other small gas utilities and found applicant's expenses to be reasonable. Another staff witness, giving consideration to applicant's capital structure and its cost of debt, 6 percent, is of the opinion that an 8 percent rate of return on the original cost rate base is reasonable in this proceeding. Such a rate of return will provide a 10.5 percent return on common stock equity.

#### Findings and Conclusion

The Commission finds that:

1. Applicant is in need of additional revenues.
2. The staff estimates of operating revenues, operating expenses and rate base for the test year 1970 reasonably indicate the results of applicant's operations in the near future.

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3. A rate of return of 7.2 percent on a rate base of \$241,400 is reasonable for the year 1970.

4. The increases in rates and charges authorized herein are justified; the rates and charges authorized herein are reasonable, and the present rates and charges, insofar as they differ from those prescribed herein, are for the future unjust and unreasonable.

The Commission concludes that the application should be granted.

O R D E R

IT IS ORDERED that after the effective date of this order, McCloud Gas Co., Inc., is authorized to file revised tariff sheets with the rates, charges and conditions substantially as set forth in the proposed general rate schedule attached to its application as a part of Exhibit C. Such filing shall comply with General Order No. 96-A. The effective date of the revised rate schedule shall be four days after the date of filing. The revised rate schedules shall apply only to service rendered on and after the effective date thereof.

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

Dated at Los Angeles, California, this 23rd day of JUNE, 1970.

William Symons, Jr.  
President

Robert J. McCloud

J. J. McCloud

John J. McCloud

Samuel L. McCloud  
Commissioners