

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of the City of San Bernardino,)	
a municipal corporation, for a)	Case 1776.
decrease in rates of Southern)	
California Gas Company.)	

William Guthrie, for the City of San Bernardino,
Complainant.

Jared How)	
and)	for Southern California Gas
T. J. Reynolds)	Company, Defendant.

Geo. H. Johnson, for certain consumers.

Brundige, Commissioner.

O P I N I O N.

This complaint of the City of San Bernardino was filed with the Railroad Commission June 7, 1922, and alleges that the rates charged for the service of gas by Southern California Gas Company are unjust and unreasonable and asks that the Commission fix just and reasonable rates.

A hearing was held in this matter in San Bernardino on December 11th, 1922, before former Commissioner Benedict, at which time the City of San Bernardino introduced certain evidence and testimony for the purpose of showing the recent material growth of the city, which would contribute to the justification of lower rates at this time. Complaint was also made because of the fact that defendant gas company does not voluntarily extend its gas mains along the various streets of

San Bernardino prior to the paving of such streets. However, sufficient evidence was not submitted in this proceeding to warrant a modification of present extension rules. Adjourned hearings in this matter, which were held in Los Angeles on May 15th and August 16th, 17th, 22nd and 23rd, 1923, were necessitated in order for the Commission to complete its valuation of the properties involved and to prepare proper studies of the cost of service based upon this appraisal.

A great amount of evidence in the form of exhibits has been submitted by defendant, largely in reply to the demands of Mr. Guthrie, attorney for the City of San Bernardino. The Commission, through Valuation Engineer R. M. Vaughan and C. C. Brown, Assistant Engineer, submitted an inventory and appraisal of the properties of Southern California Gas Company in the San Bernardino Division. Analyses of operating records and estimates of the cost of domestic gas service for the ensuing rate year ending June 30, 1924, were presented by H. L. Masser, Gas Engineer for the Commission.

The domestic gas rate in the City of San Bernardino is shown by the following schedule:

SOUTHERN CALIFORNIA GAS COMPANY.
SCHEDULE C-2.

First	3 000	cubic feet per meter per month at \$1.30 per Mcf.
Next	7 000	" " " " " " " " " " 1.20 " "
"	10 000	" " " " " " " " " " 1.07 " "
"	30 000	" " " " " " " " " " .92 " "
All over	50 000	" " " " " " " " " " .77 " "

Minimum charge \$1.00 per meter per month.

This schedule is 5 cents per thousand cubic feet higher on the first two blocks and 2 cents per thousand higher on the other blocks than the rate now in effect in the City of Riverside. Previously, these two cities had the same rate, but the evidence

submitted in Application No. 5903, when rates were last fixed for both these districts, indicated that the cost of service in San Bernardino was higher than in Riverside, due in part to the local franchise tax which is charged only by the former city.

On August 25, 1921, Southern California Gas Company acquired the properties of Citrus Belt Gas Company in the Cities of San Bernardino, Redlands, Colton and Corona at a net purchase price of \$364,038.39. Because of this consolidation of properties and questions which had been raised in previous rate complaints of the City of San Bernardino, the Commission has had its valuation department prepare an inventory and valuation of the present properties of Southern California Gas Company, which was submitted as Exhibit No. B in this proceeding. This valuation presents a segregation of capital to the various operating districts, but does not indicate separately the amount chargeable to the City of San Bernardino. In order to arrive at the investment chargeable to the City of San Bernardino only, it has been necessary to pro-rate the capital for most accounts from the San Bernardino district upon the basis of the number of consumers served. However, certain elements of capital in this district, such as transmission mains, involve a relatively greater investment per consumer for the rural territory than the City. For this reason the allocation of this portion of the investment has been based upon a study of the use of the various lines. While a percentage of the investment in the Colton gas generating plant and the Chino-Colton natural gas transmission line is properly chargeable to the cost of service in the City of San Bernardino, this investment has been fully considered in determining the total cost of gas at the

outlet of the Colton plant.

The value of all gas properties in the San Bernardino Valley Division of Southern California Gas Company as determined by the Commission's engineers is shown by the following figures. This tabulation sets forth a statement of the operative properties only. In the Cities of San Bernardino and Redlands there was found to be a duplication of gas mains, services and meters. Investigation showed that in San Bernardino the majority of Citrus Belt Company's mains are useful to the present consolidated system. However, duplicate service lines could not be considered as useful or operative property.

TABLE NO. I.

SOUTHERN CALIFORNIA GAS COMPANY - SAN BERNARDINO VALLEY DIVISION.

Valuation of Gas Properties - As of December 31 - 1922.

	Colton	San Bernardino	Riverside	Redlands	Colton	Corona	Total
	Plant & Trans. Lines	Plant & Dist.	Dist.	Dist.	Plant & Dist.	Dist.	Division
Intangibles	\$ 760	\$ 2 123	\$ 1 107	\$ 1 086	\$ 397	\$ 457	\$ 5 930
Lands & R/W	3 830	8 421	2 928	4 463	-	1 076	20 718
Product. Equip	423 112	42 793	20 292	25 193	-	7 843	519 233
Trans. Mains & Distribution	155 373	98 282	54 561	83 173	-	50 074	441 463
General	-	536 669	340 487	289 000	103 300	53 775	1 323 231
General	" 7 767	41 277	27 771	16 412	3 276	4 392	100 895
T O T A L	\$590 842	\$729 565	\$447 146	\$419 327	\$106 973	\$117 617	\$2 411 470

The estimated rate-base for San Bernardino City shown by Table II has been prepared by pro-rating on a consumer basis a proportion of most of the above amounts charged to the San Bernardino District, together with actual additions and betterments since the

date of the appraisal and allowances for estimated further mean operative additions to be made during the ensuing rate year. The estimated investment in transmission mains chargeable exclusively to San Bernardino City is based upon the Company's Exhibit No. I, which presents an analysis of the proportionate use by the City of the several lines supplying the entire district. This estimate is more favorable to the city than a direct apportionment pro-rated upon a consumer basis.

TABLE NO. II.

SOUTHERN CALIFORNIA GAS COMPANY.

ESTIMATED RATE BASE FOR CITY OF SAN BERNARDINO.

(Not Including Proportion of Colton)
(Plant and Transmission Line.)

FOR YEAR ENDING JUNE 30 - 1924.

Intangibles & Franchises	\$ 1 198
Lands	7 250
Buildings	4 140
Holders	35 557
Transmission Mains, Boosters, etc.	56 668
Distribution Mains	283 490
Services	125 100
Meters	91 835
Regulators	4 690
General Structures	17 823
General Equipment, Office, Tools, Autos, Misc.	18 432
	<hr/>
TOTAL FIXED CAPITAL	\$ 646 183
Materials & Supplies	12 000.
Working Cash Capital	16 100
	<hr/>
TOTAL FOR ESTIMATED RATE BASE	\$ 674 283

A brief summary of the estimated proportion of operating revenues and expenses for San Bernardino City for the year 1922 is set forth in the following Table No. III :

TABLE NO. III.
SOUTHERN CALIFORNIA GAS COMPANY.
ANALYSIS OF GAS OPERATION - SAN BERNARDINO CITY.
Y E A R 1 9 2 2.

	<u>SAN BERNARDINO</u> <u>C I T Y.</u>	
Domestic Gas Consumers, Average	5 144	
" " Sales	175 440 Mcf.	
Industrial " "	6 182 "	
 <u>REVENUE</u>		
Domestic Gas Revenue	\$ 201 694.41	
Industrial " "	2 001.12	
T O T A L		\$203 695.53
 <u>EXPENSES</u>		
Gas Production Costs	47 849.70	
Distribution Expense	43 565.00	
Commercial " "	16 460.00	
General " "	7 240.00	
Uncollectible Bills	1 689.92	
Taxes	16 507.89	
Depreciation	16 344.53	
Amortization	1 400.00	
TOTAL OPERATING CHARGES		\$151 057.32
<u>NET AVAILABLE FOR RETURN</u>		52 638.21
<u>INVESTMENT (Fixed Capital)</u>		\$734 327.00
<u>RETURN, PER CENT</u>		7.16%

Attention has been directed in this proceeding to the accounting methods of defendant which, according to testimony of representatives of the Company results in the charging to operating accounts of certain expenditures which should correctly be capitalized as overhead costs. In this way total operating expenses have to some extent been increased. A study has been made of these charges in order to determine the amount of deductions proper to make from operating accounts. Investigation indicates that defendant is now properly charging

to capital accounts overhead costs other than the correct proportion of administration, legal and contingent expenses. Administration expense was established by the Commission at 2% when determining overhead charges for this system. At present the other overhead charges listed are very nominal. Upon this basis there should be deducted from general operating expenses, as indicated by the company's books, the sum of approximately \$1750. to cover administration and other expenses which should be capitalized.

An analysis of operating costs for the past year shows very definitely that distribution charges in the San Bernardino district are unusually high in comparison with similar districts of this and other companies. The average distribution cost per consumer per year was \$7.73 in San Bernardino in comparison with less than \$5.00 in all other districts studied. This higher cost results principally from heavy charges for repairs to mains, services and meters and the attendant inspection work. Without question the acquisition of the Citrus Belt Gas System has rendered it necessary that a considerable amount of deferred maintenance work be undertaken by Southern California Gas Company. After careful consideration of this situation it appears that all of such deferred maintenance costs should not be directly assessed to operating expenses chargeable to the cost of gas service, but should be considered by the Company as a part of the purchase cost of acquiring the Citrus Belt Gas Company properties as this deferred maintenance existed at the time these properties were purchased. In its appraisal of the present consolidated properties of Southern California

Gas Company, the Commission has not taken the purchase price as a basis, but has used the historical cost of the Citrus Belt properties remaining operative. The cost of deferred maintenance is a further payment for the property acquired and therefore is not properly chargeable to operating expenses in estimating rates.

The method of accounting for certain general charges of the San Bernardino office has been questioned in this proceeding. This office is in a measure a general office for the entire San Bernardino Valley Division, and certain minor operating charges from this source have in the past been made against the San Bernardino district only, instead of pro-rating them against the entire division. Consideration has therefore been given herein to a more equitable apportionment of these charges. Complaint was also directed by Mr. Cathrie against the charges made by defendant for indemnity and casualty insurance. The charges for this insurance which is carried by the Company itself are materially less than rates which would be charged by insurance companies for reasonable protection, and have therefore been allowed in the cost of service as estimated herein. Appropriate adjustment of charges for fire insurance has been made.

The City of San Bernardino has in its closing brief attacked the rate of return of 9% previously allowed Southern California Gas Company in this district, alleging this rate to be excessive. It is to be borne in mind that defendant company only a few years ago undertook a heavy expenditure to bring natural gas to San Bernardino and Riverside. During the early period of this new service the com-

pany failed to earn a full return; in fact, during the period just following the introduction of natural gas earnings were but little more than operating expenses. On the other hand consumers benefited immensely because of greatly increased heating value of the gas and the general improvement of the service. This Commission has found it reasonable elsewhere to permit a 9% rate of return for natural gas companies and there does not appear at this time sufficient reason to justify a reduction in this rate in San Bernardino. It has been alleged that defendant during the past year earned more than this rate, however, I cannot agree entirely with Mr. Guthrie in the methods of the computations of earnings as presented in his closing brief. It is not to be considered unreasonable even if defendant should have earned more than the established rate during the past year, in view of the deficiency of earnings previously experienced. However, allowance is not included here for amortization of previous operating deficits.

At the time of the purchase of the Citrus Belt system, a considerable amount of non-operative property was acquired, some of which had not recently been used by the Citrus Belt Company. There was a duplication of many service lines as well as a number of mains which are not necessary in rendering services at this time. The old gas plant has been entirely abandoned with certain exceptions, notably a gas holder which is connected to the distributing system by a three inch line. Testimony indicates this holder is generally inoperative except in emergency periods, when the city pressure falls below the holder pressure. If defendant maintains this line and holder as operative property, it is reasonable that measures should be taken to install adequate

boosting apparatus to pump the gas out of this holder into the distribution mains. Allowance is made herein for the amortization of the depreciated value of gas plant equipment as found by the Commission's Engineers and previously used by Citrus Belt Gas Company for the service of artificial gas. Such an allowance is reasonable, especially in view of the great improvement in the quality and value of the service now being rendered to former Citrus Belt Company consumers. A study of the remaining value of the non-operative property acquired from Citrus Belt Gas Company exclusive of duplicated mains and services shows a net amount of approximately \$13,653. to be amortized, which upon a ten year basis would require an annuity of \$1,855. In addition to the above amount, there was found by Decision No. 9404, Page 405, Volume 20, Opinions and Orders of the Railroad Commission, non-operative property of Southern California Gas Company in the San Bernardino District to the value of \$10,696.73, for which provision was made to amortize it over a seven year period from August 23, 1921. The annuity chargeable to the City of San Bernardino for the following five years to amortize this non-operative property amounts to \$1,380., thus making total present charges for amortization of \$3,235.

In preparing an estimate of the cost of domestic service for the ensuing year, gas production costs have been determined at the outlet of the Colton plant. These costs include interest and depreciation on the Chino-Colton transmission line and the Colton gas plant as indicated by the Commission's Exhibit No. D. The following figures set forth

an estimate of operations for the year ending June 30 - 1924.

TABLE NO. IV.
SOUTHERN CALIFORNIA GAS COMPANY.
ESTIMATE OF GAS OPERATIONS 1923 - 1924.
SAN BERNARDINO CITY.

Consumers, Average		6 640
Estimated Domestic Gas Sales		228 380 Mcf.
Estimated Industrial Sales		
(Pro-rated from District on Basis of)		
Consumers)		42 500 "
Gas for Domestic Send-out		258 500 "
 <u>OPERATING EXPENSES:</u>		
Gas Production Costs at \$.323 per Mcf.	\$83 550.	
Transmission & Distribution Expenses	31 200.	
Commercial Expense	23 350.	
General Expenses	10 680.	
Uncollectible Bills	1 700.	
SUB-TOTAL		\$150 480.
 <u>FIXED CHARGES:</u>		
Interest on Rate Base	60 685.	
Depreciation	14 217.	
Amortization	3 235.	
SUB-TOTAL		78 137.
 <u>TAXES.</u>		
		24 180.
 <hr/>		
TOTAL		252 797.
 Credit Net Revenue from Industrial Gas Sales		
		3 230.
TOTAL ESTIMATED NET COST OF SERVICE		\$249 567.

The foregoing estimate of operating expenses chargeable to the City of San Bernardino for this year ending June 30, 1924, shows a slightly lesser average cost for gas per thousand cubic feet than was experienced during the immediately preceding twelve months. The following rates modify the present charges to the extent of the estimated reduction in costs and should yield the Company a return of 9% upon its investment.

I submit the following form of order:

O R D E R.

Complaint having been filed with the Railroad Commission by the City of San Bernardino against the rates and charges made by Southern California Gas Company for the service of gas in the City of San Bernardino, public hearings having been held, and the matter having been submitted and being now ready for decision, the Railroad Commission hereby finds as a fact that the rates now being charged by Southern California Gas Company in the City of San Bernardino insofar as they differ from the rates herein established are not just and reasonable rates for the sale of gas for domestic and commercial purposes.

Basing its order upon the foregoing findings of fact and other findings of fact contained in the opinion which precedes this order,

IT IS HEREBY ORDERED that Schedule No. C-2 of Southern California Gas Company for the sale of gas in the City of San Bernardino for domestic and commercial purposes be cancelled and that Schedule C-1 be revised as follows and made effective for all regular meter readings taken on and after the 20th day of November, 1923:

SCHEDULE NO. C-1.
SAN BERNARDINO VALLEY DIVISION.

GENERAL SERVICE:

Applicable to domestic and commercial service for lighting, heating and cooking.

TERRITORY:

Applicable within the incorporated limits of the Cities of San Bernardino and Riverside.

RATE:

First	3 000	cu. ft.	per meter	per mo.	\$1.25	per M. cu. ft.
Next	7 000	"	"	"	1.15	"
"	10 000	"	"	"	1.05	"
"	30 000	"	"	"	.90	"
All over	50 000	"	"	"	.75	"
<u>MINIMUM CHARGE</u>				\$1.00	per meter	per month.

SPECIAL CONDITIONS.

Consumers served under this schedule have priority in the use of gas over consumers served under Schedules Nos. C-4, C-5 and C-6 at times when there may be an insufficiency of gas to supply the demands of all consumers.

IT IS HEREBY FURTHER ORDERED that Southern California Gas Company file with the Railroad Commission on or before November 15th, 1923, the foregoing schedule of rates for the service of domestic gas in the City of San Bernardino.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 23rd
day of October 1923.

C. Seaver

H. A. Brundage

Dwight Martin

J. F. Whittsey