

Decision No. 16963.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

CITY OF SANTA BARBARA,  
a Municipal Corporation,  
Petitioner.

vs.

SOUTHERN COUNTIES GAS COMPANY  
OF CALIFORNIA, a Corporation,  
Defendant.

Case No. 2344.

In the Matter of the Investigation  
on the Commission's own motion into  
practices, rates, rules and opera-  
tions of Southern Counties Gas Company,  
Santa Barbara District.

Case No. 2540.

S. J. Bingham, Joseph M. Berkley and  
G. R. Kenny, for City of Santa Barbara.

LeRoy M. Edwards and A. F. Bridge, for  
Southern Counties Gas Company.

J. J. Deuel and L. S. Wing, for California  
Farm Bureau Federation.

BY THE COMMISSION:

O P I N I O N

The above entitled proceedings involve (1) the rates for mixed gas service supplied within the City of Santa Barbara and adjacent unincorporated territory, including Montecito, (2) the rates for natural gas service furnished to unincorporated towns and other territory within the County of Santa Barbara and (3) the substitution of natural gas

service for mixed gas service now being served to consumers in the City and/County of Santa Barbara. The complaint of the City of Santa Barbara requests this Commission to make its order requiring Southern Counties Gas Company to reduce the schedule of gas rates applicable to domestic and commercial consumers in the City of Santa Barbara, and to supply natural gas service to all consumers in the City of Santa Barbara.

Public hearings on the city's complaint were held before Commissioner Whitsell on December 6, 1927, and before Examiner Gannon on February 20th and March 27th, 1928, subsequent to which the matter was submitted and is now ready for decision. Public hearing in the matter of the investigation on the Commission's own motion into practices, rates, rules and operations of the Southern Counties Gas Company, Santa Barbara District, was held before Examiner Gannon on May 23, 1928. Evidence introduced at hearings on the city's complaint involved the entire district operation and, following a stipulation by the parties that this evidence might be considered in Case No. 2540, the matter was submitted for decision.

The two proceedings are so intimately connected as parts of a single situation that they have been combined for decision.

SERVICE CONDITIONS.

Prior to November 15, 1923, Southern Counties Gas Company manufactured and distributed oil gas having a heat value of approximately 550 British Thermal Units per cubic foot, in the City of Santa Barbara, in Montecito, and to contiguous territory. During the latter part of the year 1923 the company constructed a six-inch natural gas transmission line from the Ventura Avenue oil field to its gas

works at Santa Barbara. Since the completion of this line a mixture of natural and manufactured gas of approximately 700 B.T.U. per cubic foot has been supplied to its consumers in the City of Santa Barbara, Montecito and contiguous territory, and natural gas has been supplied to consumers in the towns of Carpinteria, Summerland and intervening territory traversed by the natural gas transmission line.

AMORTIZATION OF PRODUCTION CAPITAL.

The City of Santa Barbara asks that natural gas be substituted for the present mixed gas service. Supplying natural gas service as requested by the city would necessarily result in the furnishing of such service to all consumers in the Santa Barbara District of this company, and would practically result in rendering non-operative the company's gas generating plant situated in the City of Santa Barbara. The company approves such service of natural gas and proposes several plans for disposition of its generating plant, among which it recommends as most desirable, dismantling and salvaging. In its testimony and exhibits several plans of amortizing this capital investment were advanced, based upon the six per cent sinking fund method of accrual, plus six per cent interest annually on the sum to be amortized. These plans, resulting in annuities ranging from \$16,548.72 to \$46,464.78, are substantially as follows:

1. To amortize over a 5 or 10 year period the present production plant with the exception of steam driven compressor equipment, boiler and necessary housing.
2. To amortize over a 5 or 10 year period the entire production plant and install new gas engine driven compressor.

The city, in its exhibits, has proposed a ten-year amortization period and abandonment of a portion of the plant

corresponding to the first of the above plans. In its claim that \$12,863.27 is a reasonable amortization annuity, the city has first deducted depreciation reserve based upon the depreciation of certain items of production equipment from 1915 to December 31, 1927, while the company's claim is based upon a deduction of depreciation reserve calculated only from the year 1920, when the company acquired control of this property.

While we agree that the entire production plant equipment should be retired, we do not feel that the amortization of substantially all of this capital is fair to the consumers. Had the properties, since the inception of the original company, been operated under one ownership, the reserve for depreciation of production equipment would now be substantially \$100,000.00 instead of the \$38,275.00 which has accrued under the management of Southern Counties Gas Company. The consumer should not, in this instance, pay in rates any amount for amortization on production equipment over and above the depreciation reserve which would exist if properly accounted for since date of installation of the property involved. The difference between \$239,999.17, carried on the company's books, and a reserve of \$100,000.00, less a net salvage of \$10,000.00, leaves a balance of \$129,999.17.

We conclude, therefore, that \$130,000.00 of plant investment should be amortized over a period of ten years on the six per cent sinking fund basis. The corresponding annuity and interest charge are provided for in allowed operating expenses.

RATE BASE.

Though minor discrepancies occur in the estimates

of fixed capital introduced by the city and the company, we find that, in general, these estimates are substantially in agreement as to rate base. As stated above, we believe that the interests of the consumer and the utility will best be served by the abandonment of the entire present gas generating plant, and the substitution of a gas engine driven compressor plant for the present steam driven equipment. Inasmuch as the city estimate provided for the retention of a portion of the present production plant in operative capital, we have, after due consideration, accepted the company's fixed capital estimate for rate base purposes. A fair allowance for proposed new gas holder and compressor equipment is reflected therein. It is to be noted, however, that \$115,113.27, the cost of the six-inch transmission line from Ventura Avenue compressor plant to the Santa Barbara County line, has been included under "Transmission Capital." An allowance for "Materials and Supplies," which we believe to be reasonable, is shown in Table No. 1, as well as allowance for "Working Cash" which has been calculated on the usual basis employed by this Commission, i.e., one month's cost of gas, two months' other operating expense, less one-quarter state taxes. A deduction of \$86,000.00 has been considered reasonable for "Consumers' Advances in Aid of Construction."

TABLE NO. 1.

ESTIMATED RATE BASESOUTHERN COUNTIES GAS CO., SANTA BARBARA DISTRICTYEAR 1928

	<u>City Exhibit #2</u>	<u>Company Exhibit #2</u>	<u>Found Reasonable</u>
<u>Fixed Capital:</u>			
Franchises,	\$670.00	\$670.00	\$670.00
Transmission,	111,544.00	112,249.21	227,363.00*
Distribution,	1,190,199.00	1,171,604.17	1,171,604.00
General,	126,272.00	135,988.20	135,988.00
Total,	\$1,428,685.00	\$1,420,511.58	\$1,535,625.00

	<u>City Exhibit #2</u>	<u>Company Exhibit #2</u>	<u>Found Reasonable</u>
Materials and Supplies,	\$59,738.00**	\$28,400.00	\$28,400.00
Working Cash,	-	31,024.00	19,810.00
Less Consumers' Advances,	-	-	86,000.00
	<hr/>	<hr/>	<hr/>
RATE BASE,	\$1,488,423.00	\$1,479,935.58	\$1,497,835.00

\*Includes \$115,133.27 Transmission Line,  
from Compressor Station to Santa  
Barbara County Line.

\*\*Total Materials and Supplies and Working Cash.

OPERATING EXPENSES AND DEPRECIATION.

The principal difference between operating expense estimates presented by the city and the company is to be found under "Production Expense" and "Taxes." The variation in production expense results from difference of opinion in the unit cost of gas which the company has estimated at 18.97¢ per M.C.F., and the city at 15.45¢. These unit costs in both cases purport to be the cost delivered to Santa Barbara District at the Santa Barbara County line. The company presented its claim of 18.97¢ per M.C.F. at some length, basing it upon the theory that early depletion of the natural gas supply is inevitable, and therefore, in its opinion, the cost of gas should include amortization, over a period of six years, of capital invested in suction lines and compressor plants as well as capital invested in transmission line from compressor plant to Santa Barbara County line.

A rather elaborate study of the amount of gas heretofore produced in the Ventura Avenue and South Mountain fields and the amount of gas available to Southern Counties Gas Company, under its present contracts, was testified to by Messrs. R. N. Ferguson and R. Simmons, geologists. Inasmuch as the use of

suction lines and compressor plant is common to gas delivered to Los Angeles, Santa Barbara and other communities served by this company, we feel it proper to amortize these facilities in the cost of gas, and further to include reasonable operating charges. The transmission line from Ventura Avenue field compressor station to Santa Barbara County Line, amounting to \$115,113.27, will not become entirely non-operative upon the depletion of the gas supply. It has, therefore, been included in the rate base rather than as an element in the cost of gas. We find, therefore, that 15.96¢ per M.C.F. will adequately provide for the unit cost of gas, and this figure will be used for purposes of this decision.

Allowance for state tax is based on 7½% of gross revenue for the year 1927, which is the usual method employed by this Commission. Federal tax is estimated for the year 1928. This results in a total allowance of \$50,000.00, which is substantially higher than the city's estimate and slightly higher than the estimate submitted by the company.

Estimate of depreciation annuity presented by the city was based upon depreciable property in service December 31, 1927, rather than estimated average depreciable property in service during the year 1928. Except for a few lives applicable to certain classes of property, the city and company are substantially in agreement. Analysis of evidence presented leads us to the conclusion that reasonable depreciation annuity for the year 1928 would be \$37,208.00, which includes an annuity for the entire Ventura-Santa Barbara transmission line.

TABLE NO. 2ESTIMATED OPERATING EXPENSES AND DEPRECIATION ANNUITY,SOUTHERN COUNTRIES GAS COMPANY, SANTA BARBARA DISTRICT.YEAR 1928

	<u>City Exhibit #17</u>	<u>Company Exhibit #4</u>	<u>Found Reasonable</u>
<u>Operating Expenses:</u>			
Production,	\$87,670.00	\$116,316.00	\$101,600.00
Transmission,	2,750.00	4,100.00	4,100.00
Distribution,	58,900.00	58,885.00	58,885.00
Commercial,	30,000.00	30,000.00	30,000.00
New Business,	7,500.00	9,000.00	7,500.00
Gen'l. & Miscl.,	20,000.00	22,000.00	22,000.00
Uncollectibles,	4,000.00	4,000.00	4,000.00
Taxes,	42,000.00	48,930.00	50,000.00
Total,	\$252,820.00	\$293,231.00	\$278,085.00
Depreciation,	\$26,315.00	\$24,077.00	\$37,208.00
Amortization,	12,863.00	26,599.00	17,667.00*
Total,	\$291,998.00	\$353,907.00	\$332,960.00

\*On \$130,000. of Production Property 10 years.  
6% Sinking Fund Basis.

Rate of Return.

Both the city and the company introduced evidence dealing with the effect upon revenue which would result through the substitution of natural gas for mixed gas service and the rates necessary in the present mixed gas area to yield a fair return.

We are concerned with rates for the entire Santa Barbara District rather than rates for the City of Santa Barbara alone, and it, therefore, is not necessary to set up the claims made by these parties.

At the hearing on February 20th, C. E. Crenshaw, of the Railroad Commission's Engineering Department, testified on Rate Base, Operating Revenue, Expense and Rate of Return for the year 1927, showing the latter to have been 14.74%, which remains uncontradicted in the record.

Based on the above findings of rate base and expenses,



it will be seen from the following Table No. 3, that the necessary annual gross revenue is \$445,300.

TABLE NO. 3.

Expenses (Table 2) . . . . .	\$332,960.00
Return (7 $\frac{1}{2}$ % on \$1,497,835.) . . . . .	<u>\$112,338.00</u>
Necessary Gross Revenue, . . . . .	\$445,298.00

Under present conditions and rates the gross revenue for 1928 would approximate \$580,000., which is considerably in excess of a fair return, as found reasonable.

The rates established in the order accompanying this opinion will yield substantially the amount above found reasonable, bearing in mind that the use of gas will be greatly stimulated, as a result of rate reductions here placed in effect, and the more general use of gas which should follow.

Rates.

The city and the company have both urged that the so-called "Two-part Rate" be adopted for domestic and commercial service instead of the minimum form of rate which has applied in the past. The city contended for a service charge of \$1.00 per meter per month, while the company advocated a \$1.50 charge.

Admittedly, the two-part rate, or a rate embodying its principle, has certain advantages over the ordinary minimum form of rate. The lower commodity charge, which accompanies the two-part form of rate, makes available additional quantities of gas at lower cost and thereby stimulates usage, to the ultimate benefit of the entire group of consumers. Further, such a rate, if properly designed, more equitably allocates the cost of service among the consumers. Under the ordinary minimum form of rate a certain group of consumers with small usage does not pay its way, and the average consumer pays somewhat more than his share. If this condition is to be corrected, it naturally follows

that, for certain usages, increased bills will result, which, in general, is the main cause for objection to the two-part form of rate.

There are other considerations which have a bearing upon the advisability of placing the two-part form of rate in effect, and to which consideration must be given in any specific instance.

In these proceedings, all interested parties have urged its adoption and the order will so provide.

### O R D E R

The Railroad Commission of the State of California having, upon complaint of the City of Santa Barbara and on its own motion, made an investigation into practices, rates, rules and operations of Southern Counties Gas Company in the Santa Barbara District, public hearings having been held, the matters being submitted and being now ready for decision:

The Railroad Commission hereby finds as a fact that natural gas service should be supplied in lieu of mixed gas service now supplied in the Santa Barbara District, and that gas rates of the Southern Counties Gas Company now in effect for service rendered in the Santa Barbara District are unjust and unreasonable in so far as they differ from the gas rates hereinafter set forth, which rates are hereby declared to be just and reasonable rates, and basing its order upon the foregoing finding of fact and the findings of fact contained in the opinion preceding this order,

IT IS HEREBY ORDERED, that

(1) Effective ~~June~~ *July* 9, 1928, the Southern Counties Gas Company of California shall furnish natural gas to all

consumers within the territory known as Santa Barbara District of the Southern Counties Gas Company.

(2) Southern Counties Gas Company of California be and it is hereby authorized to charge and collect for natural gas service supplied in its Santa Barbara District, effective with bills based on regular meter readings taken on and after July, 24, 1928, the schedule of rates set forth in Exhibit "A" attached hereto and made a part hereof, such rates to be filed with this Commission on or before July 24, 1928.

For all other purposes the effective date of this order shall be twenty (20) days on and after the date hereof.

Dated at San Francisco, California, this 29<sup>th</sup> day of June, 1928.

Leon Curtis  
James  
W. M. ...  
Thos D. ...

Commissioners.

EXHIBIT "A"

SCHEDULE NO. 5A(Superseding Schedules No. 5A, 5AN,  
5B, 5C, 5CN and 5FN)General Service

Applicable to domestic and commercial service for lighting, heating and cooking, including restaurants, apartment houses, hotels, hospitals, sanitarium, business buildings of all kinds, schools and churches.

Territory

Applicable to entire Santa Barbara District.

Rate

Service Charge .....\$1.00 per meter per mo.  
Consumption charge (to be added  
to service charge)..... 8.5¢ per 100 cu. ft.

Minimum Charge:

The service charge set forth above constitutes the minimum charge.

Special Conditions:

Consumers served under this Schedule shall have priority in the use of gas over consumers served under Schedules No. 5AA, 5B, 5D and 5E, at times when there is insufficient gas to supply the demands of all consumers.

SCHEDULE NO. 5AA

(Superseding Schedule No. 5AA.)

OPTIONAL RATE FOR GENERAL SERVICE:

Applicable to domestic and commercial service for lighting, heating and cooking, including restaurants, apartment houses, hotels, hospitals, sanitararia, business buildings of all kinds, schools and churches.

TERRITORY:

Applicable to entire Santa Barbara District.

RATE:

Demand Charge - \$48.00 per year per 100 cu. ft. maximum hourly demand.

Commodity Charge - .04 per "C" cubic ft.

Minimum demand charge - \$240.00 per year, payable monthly.

SPECIAL CONDITIONS:

The maximum hourly demand will be the rated hourly capacity of consumer's appliances, unless consumer specifies a greater or lesser demand. The company may mechanically limit the supply of gas in accordance with the demand applicable.

Consumers served under this schedule shall have priority in the use of gas over consumers served under Schedules Nos. 5B, 5D and 5E, at times when there is insufficient gas to supply the demand of all consumers.

SCHEDULE NO. 5-B

(Superseding Schedule No. 5B)

GAS ENGINE SERVICE:

Applicable to service for internal combustion engines only.

TERRITORY:

Applicable to entire Santa Barbara District.

RATE:

First	100,000	cu. ft.	per meter	per mo.	\$.45	per M. cu. ft.
Next	400,000	" "	" "	" "	.40	" " "
Next	500,000	" "	" "	" "	.35	" " "
All over	1,000,000	" "	" "	" "	.30	" " "

MINIMUM CHARGE:

\$3.00 per meter per month.

For continuous yearly service, accumulative annual minimum of \$36.00 per meter.

SPECIAL CONDITIONS:

Consumers served under this schedule shall have priority in the use of gas over consumers served under Schedules No. 5D and 5E, at times when there is insufficient gas to supply the demands of all consumers.

SCHEDULE NO. 5-B.C.(SUPERSEDING SCHEDULE NO. 5-B.N.C.)GAS ENGINE SERVICE:

Applicable to service for internal combustion engines only.

TERRITORY:

Applicable to entire Santa Barbara District.

RATE:

EFFECTIVE DEC. 1 to MARCH 31, Inc.

First	100,000 cu.ft.per meter per month,	\$.45 per M. cu. ft.
Next	400,000 cu.ft.per meter per month,	.40 per M. cu. ft.
Next	500,000 cu.ft.per meter per month,	.35 per M. cu. ft.
All over	1,000,000 cu.ft.per meter per month,	.30 per M. cu. ft.

RATE:

EFFECTIVE APRIL 1 to NOV. 30, Inc.

Rate "A",	35¢ per M.cu.ft.with an annual guarantee of 5,000 M.cu.ft.
Rate "B",	30¢ per M.cu.ft.with an annual guarantee of 10,000 M.cu.ft.
Rate "C",	28¢ per M.cu.ft.with an annual guarantee of 15,000 M.cu.ft.
Rate "D",	25¢ per M.cu.ft.with an annual guarantee of 20,000 M.cu.ft.

In applying this schedule, gas consumed at all meter locations will be aggregated. In addition to the rates quoted above, an annual meter charge of \$25.00 will be made for each meter installation in excess of one.

SPECIAL CONDITIONS:

Measurement will be based upon the unit of 1,000 cu.ft. of gas at 14.73 lbs. absolute. Consumers served under this schedule shall have priority in use of gas over consumers served under Schedules No. 5-D and 5-E at times when there is insufficient gas to supply the demands of all consumers.

A contract for a period of two years will be required as a condition precedent to service under this schedule.



SCHEDULE NO. 5-D(CANCELLING SCHEDULE NO. 5 D.N.)SURPLUS INDUSTRIAL SERVICE:

Applicable to industrial service on existing mains having a delivery capacity in excess of the present requirements of consumers served under Schedules Nos. 5A, 5AA, 5B and 5BC for use in steam boilers, incinerators, kilns, or similar equipment, in which the gas is not used to heat buildings or to prepare meals, and which are equipped to use other fuels and can be converted to use other fuels on thirty minutes' notice. Consumers receiving service under this schedule are required to maintain adequate supplies of such other fuels.

TERRITORY:

Applicable to entire Santa Barbara District.

RATE:

"A" -40 cents per M.cu.ft.with monthly guarantee of \$40.00.  
 "B" -30 cents per M.cu.ft.with monthly guarantee of \$75.00.

Provided, however, that each of the foregoing rates is subject to a change of 1/10 of one cent per thousand cubic feet for each change of 1 cent in the price of fuel oil below \$1.50 per barrel, as quoted by the Standard Oil Company, a California corporation; and provided, further, that in every event these rates shall be limited to the maximum and minimum rates, respectively, as hereinbelow set forth, to wit:

<u>Maximum or Base Rate</u>	<u>Minimum Rate</u>
"A" 40 cents per M. Cu. Ft.	35 cents per M. Cu. Ft.
"B" 30 cents per M. Cu. Ft.	25 cents per M. Cu. Ft.

SPECIAL CONDITIONS:

Consumers served under this Schedule shall have priority in the use of gas over consumers served under Schedule No. 5E, at times when there is insufficient gas to supply the demands of all consumers.

A contract for a period of one year will be required as a condition precedent to service under this schedule.

SCHEDULE NO. 5-E(SUPERSEDING SCHEDULE NO. 5 EN)OIL FIELD SERVICE:

Applicable to service requiring the use of gas for pumping or drilling oil wells, or for other oil field operations.

TERRITORY:

Applicable to entire Santa Barbara District.

RATES:

30¢ per 1,000 cubic feet.

Subject to a change of 1/10 of one cent per thousand cubic feet for each change of 1 cent in the price of fuel oil below \$1.50 per barrel, as quoted by the Standard Oil Company, a California corporation; provided, however, that in every event this rate shall be limited to a minimum of 25 cents per thousand cubic feet and a maximum of 30 cents per thousand cubic feet.

MINIMUM CHARGE:

\$50.00 per meter installation per month, or a cumulative minimum of \$600.00 per year. Minimum total use of gas at each meter installation, \$500.00.

SPECIAL CONDITIONS:

Character of Service.

Measurements based upon the unit of 1,000 cubic feet of gas at 4-ounce pressure above atmosphere. Only surplus natural gas is available for consumers under this Schedule. Consumers supplied under this Schedule are subject to shut-off without notice in the event of a threatened or actual shortage of gas, and the Company will not be liable for damages occasioned by shutting off the gas supply. Such consumers will be expected to keep a supply of other fuels on hand.