

Decision No. ~~20883~~ 20883

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

H. R. Sales, et al,
Complainants,

vs.

West Side Natural Gas Company
of Taft, California,
Defendant.

Case No. 2414.

In the Matter of the Investigation
on the Commission's own motion in-
to the rates, tolls, rentals, charges,
classifications, contracts, practices,
rules, regulations and service of
West Side Natural Gas Company, a pub-
lic utility corporation.

Case No. 2472.

F. E. Borton, C. V. Anderson,
Joseph Haber, Jr. and James T. Ryan,
for West Side Natural Gas Company.

Coker F. Rathbone, for City of Taft.

LOUTTIT, COMMISSIONER:

O P I N I O N

In these proceedings the Commission has before it the complaint of H. R. Sales and others that defendant, West Side Natural Gas Company, is, and has been since its inception, charging excessive rates for natural gas; also an investigation, instituted on the Commission's own motion, into the rates, practices and operations of West Side Natural Gas Company.

Public hearings were held in Taft on April 24th, May 31st, and October 6th, 1928, evidence being introduced and testimony

taken. The two cases were consolidated for hearing and decision.

X
A motion by Attorney for applicant that Case 2414 be dismissed for want of necessary signatures, and want of appearances and necessary representation, was taken under submission. There being nothing to the contrary in the record, this motion will be granted and the order will so provide.

The Commission's investigation in this proceeding covers a review of the rates, rules, practices and operations of West Side Natural Gas Company; however, the major issue, the question of the reasonableness of present rates, forced the greater proportion of attention to be directed to rate matters.

West Side Natural Gas Company purchases natural gas from Southern California Gas Company at Fellows, Maricopa and at two locations in Taft, and distributes this gas through a total of some 46 miles of high and low pressure mains to over 3000 consumers in the above mentioned localities and surrounding areas. Rates charged have, without exception, been in effect for over ten years.

Evidence introduced by the company and the Commission's engineering staff related primarily to estimates of rate base, revenue, operating expenses and rate of return for the year 1929. A study presented by the engineering staff dealt with earnings and rate of return during the years 1925, 1926 and 1927, being respectively 18.2%, 17.2% and 17.6%. While no attempt was made to estimate rate of return for 1928, it is quite evident from the testimony that the comparable figure would be substantially 10% for that year. These calculations of return earned in past years involve numerous corrections to reported expenses, particularly in the matter of general and miscellaneous expense, which,

in part, are not accepted by the company. There is no question, however, that past earnings have been very high. In view of the recent marked decline of the number of consumers served, interest centers around estimates for the year 1929 and succeeding years.

Rate Base:

The Commission's engineering staff presented an appraisal of properties as of December 31, 1927, being an inventory and price determination of properties upon four bases; namely, historical reproduction cost, reproduction cost new, and the latter less both straight line and sinking fund depreciation. In the table below the results of these appraisals are set forth, together with the claims advanced by the company for investment in operative property:

WEST SIDE NATURAL GAS COMPANY
PRICED INVENTORY OF PROPERTIES
AS OF DECEMBER 31, 1927.

No.	Account Name.	: Less Depreciation :				Company Claims.
		: Historical Cost :	: Reproduction Cost New :	: Straight Line :	: Sinking Fund 5% :	
<u>OPERATIVE PROPERTY:</u>						
351	Lands,	\$5,250.	\$ 5,250.	\$ 5,250.	\$ 5,250.	\$ 5,250.
352	Structures,	25,153.	25,554.	24,990.	24,990.	25,153.
353	Distr. Station Equipment.	879.	919.	827.	827.	879.
355	Distribution Mains,	120,162.	110,325.	73,220.	81,044.	120,162.
357	Services,	24,446.	22,958.	14,375.	16,540.	24,446.
358	Meters and Regulators,	58,476.	65,686.	57,668.	59,723.	58,476.
360	On Consumers' Premises,	1,196.	1,017.	508.	508.	1,196.
	Sub-total -	\$235,562.	\$231,709.	\$176,838.	\$188,882.	\$235,562.
361	Miscellaneous Equipment.	21,462.	22,436.	20,524.	20,640.	22,436.
	Sub-total -	\$257,024.	\$254,145.	\$197,362.	\$209,522.	\$257,998.
301	Organization,	500.	500.	500.	500.	2,133.
358	Meters and Regulators (Stock)	3,298.	3,788.	inc.	inc.	3,298.
	Total Operative Property,	\$260,822.	\$258,433.	\$197,862.	\$210,022.	\$263,429.
<u>NON-OPERATIVE PROPERTY:</u>						
351	Lands,	\$15,250.	\$15,250.	\$15,250.	\$15,250.	
352	Structures,	1,595.	2,990.	2,392.	2,392.	
355	Distribution Mains,	1,028.	939.	-	-	
	Total Non-Operative Property,	\$17,873.	\$19,179.	\$17,642.	\$17,642.	
	Total Operative and Non-Operative Property,	\$278,695.	\$277,612.	\$215,504.	\$227,664.	

It will be noted that the company has accepted the engineering department's historical appraisal except for the items Organization Expense, and Miscellaneous Equipment Capital. The company contends that certain expense entailed in the consolidation and reorganization which took place in 1920 is properly inclusive in a rate base and that the investment set forth on the company's books for miscellaneous capital should be accepted. It is quite clear that expenses incurred purely in connection with a consolidation or reorganization cannot properly be considered in a rate base and no evidence has been presented to justify the company's claim in regard to the item of miscellaneous capital. We therefore use, for purposes of this decision, the historical appraisal advanced by the engineering department of the Commission; namely \$260,822. for operative fixed capital as of December 31, 1927.

To obtain a rate base for the year 1929, consideration must be given to estimated additions and betterments for the years 1928 and 1929; to necessary allowances for materials and supplies and working cash capital. No disagreement exists as to additions and betterments and allowance for materials and supplies properly inclusive, these items being \$3,000 and \$5,000 respectively. The company contends for an allowance of \$10,000 for working cash capital as against \$7,000 for this item calculated in accordance with past practice of the Commission. There is no reason for unique treatment of this item in this particular proceeding and, accordingly, a \$7,000 allowance will be made. The reasonable rate base for the year 1929 is, therefore, found to be \$275,822.

Revenue and Expense:

Estimates submitted on probable revenue and expense during 1929 are set forth below:

	<u>Company Estimate</u>	<u>C.R.C. Estimate</u>
Gross Revenue,	\$104,664.	\$132,223.
Expenses:		
Cost of Gas Purchased,	28,800.	35,740.
Distribution Expense,	16,900.	16,900.
Commission and new business expense,	7,685.	6,500.
General and Miscellaneous expense,	18,550.	14,850.
Depreciation,	16,407.	13,350.
Taxes-State,	11,000.	10,118.
Taxes-Federal,	2,700.	3,919.
Uncollectible Bills,	1,050.	1,400.
Total Operating Expense -	\$103,092.	\$102,777.
Net Revenue,	\$1,572.	\$29,446.

It will be observed from the above table that the main differences in estimates occur in the items of gross revenue and gas purchase expense. These items depend primarily upon the number of consumers connected, and because of the peculiar situation in this area will be discussed later.

The company allowance for commercial and new business expense contains several items which should be distributed over two or more years, and is further based upon a greater number of consumers than estimated elsewhere. The estimate of \$6,500. is considered reasonable for this item.

The company's estimate for general and miscellaneous expense is apparently based on a continuation of the past salary and expense allowance of its president. Such salary and expense is clearly unwarranted for a utility of this size and will not be allowed in the present proceeding. The estimate of \$14,850.00

for this item is a liberal allowance and will be accepted as reasonable.

The depreciation annuity contended for by the company is somewhat less than that calculated in accordance with its past practice, but considerably in excess of the estimate of the Commission's engineering department. The unusually high depreciation reserve which this company has set aside indicates clearly that depreciation annuities have been excessive in past years. The engineering department's estimate of necessary depreciation annuity when consideration is given to additions and betterments estimated for the year 1929, appears reasonable and will be used in this proceeding. The calculations upon which this estimate of depreciation annuity is based are set forth below:

CALCULATION OF DEPRECIATION ANNUITY
Estimated Average Capital Year 1929
Six Percent Sinking Fund Basis.

	Fixed Capital			
	Installed	*		
	C.R.C.		Annuity	
	Valuation	Life	Rate	
	December 31, 1927	Years	Dollars	Annuity
Organization	\$500.	-	-	-
Land	5,250.	-	-	-
Structures	25,153.	35	.00897	\$226.
Distr. Station Equip.	879.	20	.02718	24.
Distribution Mains	120,162.	12	.05928	7,123.
Services	24,446.	12	.05928	1,449.
Meters and Regulators	61,774.	20	.02718	1,679.
Install on Cons. Prem.	1,196.	12	.05928	71.
Miscellaneous Equipment	-	-	-	-
Automobiles	11,179.	5	.17740	1,983.
Other Equipment	10,283.	10	.07587	780.
Subtotal -	\$260,822.			\$13,335.
Estimated Additions and Betterments, 1929,	3,000.	12	.05928	178.
Total -	\$263,822.			\$13,513.

* NOTE: The short lives used on certain equipment are due to unusual local conditions.

Taxes as estimated by the Commission's engineering staff will be accepted as reasonable, these being dependent upon other estimates which have been accepted, and calculated in accordance with well established principles.

As noted above, estimates of gross revenue and purchased gas depend primarily upon estimates of consumers connected. Comparative estimates of consumers, gas sales and gross revenue for the calendar year 1929 are set forth below:

	<u>Company Estimate</u>	<u>Commission Estimate</u>
Average Number of Consumers	3,000	3,230
Sales M.C.F.	163,000	208,411
Gross Revenue	\$104,664.	\$132,223.

The number of consumers served by the West Side Natural Gas Company, together with sales and gross revenue derived therefrom for the years 1923 to 1928, inclusive, are listed below:

<u>Year</u>	<u>Consumers</u>	<u>Sales, M.C.F.</u>	<u>Gross Revenue</u>
1923	2,872	203,818	\$121,209.
1924	3,121	230,622	140,706.
1925	3,753	258,107	150,559.
1926	4,014	256,765	156,633.
1927	3,701	261,226	165,121.
1928*	3,260	206,340	129,453.

*Figures for the last three months of the year were estimated by the company.

Communities served by the West Side Natural Gas Company are entirely dependent upon the activity in the adjacent oil fields for their growth and prosperity. Manufacturing, commercial and transportation industries which exist are dependent upon the oil fields for their existence. The population of these localities fluctuates directly with the activity of oil production and drilling operations in the adjacent oil fields. Similarly, the number of consumers, gas sales, and gross revenue of this company fluctuate

from year to year.

To a considerable degree production from Midway Sunset Field is of a heavy crude oil of low gasoline content. Oil lands within this field are in extensive holdings under the management of large oil companies, simplifying their control and making the process of shutting in production an easy procedure.

From 1923 to the beginning of 1927, economic conditions in the oil industry were of such a nature that though large amounts of light oil of high gasoline content were produced from Southern California fields, production from Midway Sunset was not hampered. In the spring of 1927, due to the demoralized condition of the oil industry resulting from overproduction in the Mid-Continent and Texas fields, as well as continued production of large amounts of light oils in Southern California, operators of the Midway Sunset field began shutting in production of heavy crude oil. Though the overproduction from Mid-Continent fields has somewhat subsided, the conditions in California remain much the same and no change in demand for heavy crude oil is in sight. The shutting in of heavy crude has continued in the Midway Sunset field and whether more or less production and drilling will take place in 1929 than in 1928 is problematical.

The company contends that there will be a further curtailment of production and drilling in the Midway Sunset field in 1929, that there will not only be a reduction of some 150 to 250 consumers below the average of 1928, but that there will be 16 per cent less consumption per consumer than the average for 1925, 1926 and 1927 combined. The estimate of J. E. Spelce, Assistant Engineer of the Commission, though

based upon the assumption that conditions in 1929 would be about as they were during 1928, acknowledges a reduction of one per cent in number of consumers from the average of 1928 and a four per cent reduction in consumption per consumer below the 1925, 1926 and 1927 combined average.

After a careful consideration of all the evidence in this proceeding, it appears proper to conclude that a moderate reduction in the rates charged by this utility is justified and the order herein will so provide.

At the present time a slight differential is maintained in the rates for general service supplied in the two main areas served. This differential can no longer be justified and the rates established for such service will apply uniformly over the system.

I recommend the following form of order:

O R D E R

The Railroad Commission having instituted an investigation on its own motion into the practices, rates, rules and operations of West Side Natural Gas Company, public hearings having been held, the matter being submitted and ready for decision,

The Railroad Commission hereby finds as a fact that the gas rates of West Side Natural Gas Company now in effect for commercial and for special boiler service are just and reasonable and that the rates for general service are unjust and unreasonable insofar as they differ from the 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 West Side Natural Gas Company be and it is hereby authorized to charge and collect for natural gas service supplied for general service effective with bills based on meter readings taken on and after April 15, 1929, 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 April 15, 1929.

IT IS HEREBY FURTHER ORDERED that West Side Natural Gas Company, beginning with the calendar year 1929, account to its reserve for accrued depreciation for an annuity calculated in accordance with the principles followed in the opinion preceding this order, and also for interest at the rate of six per cent per annum upon the balance of the reserve for accrued depreciation upon the first day of each year.

IT IS HEREBY FURTHER ORDERED that Case No. 2414, H.R.Sales, et al. vs. West Side Natural Gas Company, be and the same is hereby dismissed without prejudice.

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

The foregoing opinion and order is 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 18th day of March, 1929.

Thomas D. Louder
Commissioner
George A. White
Commissioner
W. J. Carr
Commissioners.

EXHIBIT "A"

SCHEDULE A

(Superseding Schedules B and C)

General Service:

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

Territory:

Entire territory served.

Rate:

First 5,000 cubic feet per meter per month	-	-	-	-75¢ per M.cu.ft.
Next 10,000 cubic feet per meter per month	-	-	-	-60¢ per M.cu.ft.
Next 15,000 cubic feet per meter per month	-	-	-	-45¢ per M.cu.ft.
Over 30,000 cubic feet per meter per month	-	-	-	-30¢ per M.cu.ft.

Minimum charge:

\$1.00 per meter per month.