Decision No. 10978.

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of VALLEY NATURAL GAS COMPANY and MIDWAY GAS COMPANY as Lessee of all the properties of said Valley Natural Gas Company, for an increase in rates for the sale and distribution of natural gas on the system of the Valley Natural Gas Company.	Application No.7951.

Jared How and Thos. J. Reynolds,
for Applicant
F. S. Brittain for
California Farm Bureau Federation,
Kern County Farm Bureau, and
E. Easton.

BY THE COMMISSION:

O P I N I O N

In this application by Valley Natural Gas Company and Midway Gas Company as lessee of the properties of Valley Natural Gas Company, it is alleged that applicants have recently, by the terms of certain contracts, become obligated to pay an increased price of three cents per thousand cubic feet for the greater portion of gas purchased and sold on the system of the Valley Company. Because of the increased cost of gas purchased, applicants ask that they be granted an increase of two cents per thousand cubic feet (with a maximum price of fourteen cents per thousand cubic feet) for all gas sold for industrial and wholesale purposes on its Valley Division in the Kern River, Elk Hills and Midway oil fields and adjacent territory.

A public hearing was held on this matter in Bakersfield by Examiner Westover, at which time evidence was submitted by applicant. It was agreed that certain additional reports and data requested by the Commission's engineers should, when filed, be considered in evidence. Those have been filed, and the matter is now ready for decision.

Midway Gas Company in 1919 leased all of the properties of the Valley Natural Gas Company and subsequently purchased the capital stock of the latter, thereby making Midway Gas Company the lawful owner of the Valley Natural Gas Company. With the acquisition of the Valley system there were obtained certain contracts for the purchase of natural gas from various oil operators, chief among which was the contract for the purchase of gas from the Standard Oil Company.

This contract provided for the purchase of natural gas for five cents per thousand cubic feet, and further that upon demand Standard Oil Company would construct a compressor plant for delivering compressed gas at a pressure of 250 pounds per square inch. Such plant was duly built and put into operation. The term of this contract was for five years with provision for renewal for further periods of five years each with revision of prices with each renewal. Under date of September 29, 1917, the parties to this contract entered into a supplemental agreement which provided for the payment of one cent additional or six cents per thousand cubic feet for all compressed gas delivered by Standard Oil Company. By the terms of a further modification and renewal of this contract, required by Standard Oil Company, it was provided by an agreement dated June 12, 1922 that Valley Natural Gas Company should pay Standard Oil Company a price of five cents per thousand cubic feet for all uncompressed gas and a price of nine cents for all compressed gas, this latter price being an advance of three cents per thousand cubic feet over the previous price of compressed gas. Investigation was made by Midway Gas Company representatives, of the actual cost to the Standard Oil Company for compressing such gas and it was testified to in the proceeding that nine cents per thousand cubic feet was, in their opinion, a reasonable price for this gas.

Because of depletion of the natural resources of gas of the Midway field, which originally supplied the predecessor of the Valley Company, it has now become necessary for the latter to obtain its principal supply from the Elk Hills and Tupman fields. At this time there is a large quantity of casing head gas being produced, and in order to prevent the wastage of this, it must be marketed by the Valley Company, which necessitates compression of the gas in order to force it into the transmission lines for field distribution. Because of this situation in the oil fields it is necessary to compress by far the major portion of gas purchased from Standard Oil Company. Additional gas is also purchased by Valley Natural Gas Company from the Pacific Oil Company, and an agreement is now being negotiated in which it appears that Valley Natural Gas Company will be forced to pay an increase of 1 cent per thousand cubic feet for gas obtained from this source.

Some three weeks after the hearing the Commission received a protest filed by the California Farm Bureau Federation, Kern County Farm Bureau and E. Easton, by F. S. Brittain, their attorney, in which it is requested that the application in this proceeding be denied or, in the alternative, that the matter be re-opened by proper order of the Railroad Commission and a date of hearing set, giving them an opportunity to be present at said hearing to show cause, if any there be, why said application shall be denied. Protestants allege that they are not direct consumers of natural gas supplied by Valley Natural Gas Company but that they represent through their constituent members many hundred consumers of electric energy produced in part by the use of natural gas supplied by the present applicants to the San Joaquin Light and Power Corporation and the rates for electric energy supplied by that corporation are directly responsive to the price paid by it for natural gas delivered to it; that in this Commission's Decision No. 10348, fixing electric rates on the San Joaquin Light and Power Corporation system, said rates and schedules were determined in a large part upon evidence of the cost and estimated cost of natural gas.

It appears from Decision No. 10348 that the total cost of fuel, including oil and gas, which was estimated for the year 1922 was $169,500. out of a total cost of service in excess of $5,000,000. Were the application of Valley Natural Gas Company granted in its entirety, the effect would be an increase of less than six tenths of one per cent in the total cost of service on San Joaquin Light and Power Corporation system. We cannot conclude from a consideration of that decision that the rates and schedules were determined therein in a large part upon the evidence of the cost and estimated cost of natural gas supplied, nor can we conclude that the rates for electric service are directly responsive to the price paid for natural gas by this company. Cost of natural gas is a part of the cost of that service, but it does not follow that rates will be raised as a result of any increase in gas cost or rates reduced immediately were the gas price reduced.

Protestants further allege that the operating income of San Joaquin Light and Power Corporation under the rates established by Decision No. 10348 have been proportionately much greater than was estimated by representatives of the company or the Commission's engineers and that they fear that by this application of Midway Gas Company to increase rates the San Joaquin Company will find a means of disposing of alleged excess profits through dividends to stock holders of the Midway Gas Company who it is alleged are largely the same persons as those holding stock in theSan Joaquin Light & Power Corporation.

These allogations do not directly affect the question of just and reasonable rates to be charged on the Valley Natural Gas Company's system. If San Joaquin Light & Power Corporation is earning more than a fair return, that is a matter for consideration in a case involving the San Joaquin system and not the Valley Natural Gas Company's system. If Valley Natural Gas Company is entitled to an increase in rates based upon a fair return for its services, that increase should not be withheld pending investigations based upon protestant's allegations. Valley Natural Gas Company is faced with a material increase in cost of operation, due to the increase in prices which it has been forced to pay for gas. At the present time it receives an average of between 9 and 10 cents per 1000 cubic feet for practically all industrial gas sold. The present rates were based on a purchase price of 5 and 6 cents per 1000 cubic feet, making a difference of approximately 4 cents per 1000 cubic feet to cover cost of transmission and distribution. Applicants submit in this proceeding exhibits showing a total increase in cost of purchased gas of approximately $340,000. for the year ending July 31, 1923, over the year ending May 31, 1922. They also estimate an increase of approximately $140,000. in production costs, a result of the installation of a compressor plant for the compression of gas obtained from the Pacific Oil Company. The sum of these two increases applied to the estimated sales of gas of the Valley Natural Gas Company's system for the coming year represents an increase in cost per 1000 cubic feet of 3.12 cents. The increase asked for is approximately 2 cents per 1000 cubic feet for industrial gas and would represent a total increase in revenue of $295,000 or 1.92 cents per 1000 cubic feet of total sales.

Applicants submit, in Exhibit No. 4, their estimate of operating expenses for the year ending July 31, 1923, under present rates and under the rates they apply to have made effective. Table No. 1

sets forth the company's estimate of revenue and expense for the year based upon the rates requested.

TABLE NO. 1

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Valley Natural Gas Co. and Midway Gas Company

ESTIMATED OPERATING STATEMENT FOR YEAR ENDING JULY 31, 1923

		Based on Increased Costs and Company's Proposed Schedule.
REVENUE		
Gas Sales		
Domestic	$ 25,304.80	
Gas Engine	52,048.98	
Industrial	1,546,100.00	
Wholesale	205,321.60	
Total Revenue		$1,828,775.38
EXPENSES		
Natural Gas Purchased	$1,202,879.35	
Other Production Exp.	153,835.69	
Transmission	24,076.61	
Distribution	35,752.88	
Commercial	30,024.31	
General	37,127.63	
Taxes	93,623.59	
Uncollectible Bills	1,012.70	
Total Operating Expenses		$1,578,332.76
Return for Interest and Amortization		250,442.62
Rate Base, Company's Estimate		1,628,837.51
Rate for Depreciation & Return on Company's Estimated Rate Base	15.37%	

A study of the detailed exhibits required to be filed by the Commission as evidence in this proceeding, indicates that in this estimate Applicants have included the total increase in cost of gas obtained from the Midway and Elk Hills fields under the contract with the Standard Oil Company and Pacific Oil Company. It has also included the estimated cost of operation of the compressor plant installed for making available casing-head gas to be obtained from the Pacific Oil Company.

It appears that approximately 30% of the gas obtained under these contracts is transmitted to the Midway Gas Company's main system. Due to physical conditions the gas transmitted to the Midway Company is largely from the high pressure wells and is not compressed. The Commission does not consider, however, that it is reasonable to charge all of the increased cost to the Valley Division. The increased cost of gas should be averaged over all gas taken under the Valley Natural Gas Company contracts and Midway Gas Company should bear its full proportion of the cost although physical limitations make necessary the delivery of gas to that system that is purchased at 5 cents per 1000 cubic feet. Deduction should be made in the estimated operating expenses of $98,000 from cost of purchased gas and $43,500 from the cost of compression.

The increase in cost of gas to Valley Natural Gas Company over past conditions will, under the changed conditions be approximately 2 cents per 1000 cubic feet.

Since this application was filed and hearings held, the price of oil has been reduced 50 cents per barrel and it is believed that the Commission should take judicial notice of this fact. The purchase price of crude oil in the field is now 60 cents per barrel, which is equivalent on a comparative fuel value to between 10 and 12 cents per 1000 cubic feet of gas. Ease of use, however, in many cases results in a somewhat higher value. Practically all of the gas served by Valley Natural Gas Company for which an increase in rate is asked is directly in competition with fuel oil, and it is apparent that the rates to be charged cannot be in excess of the value of service as determined by competition.

The earnings of Valley Natural Gas Company system are such that a part of the increase in cost should be absorbed by it without reducing the rate of return below a reasonable rate. The rate herein fixed will still be at least equal to or less than the value of the service based upon competitive conditions.

Table No.2, herein, sets forth the estimated revenue and expense based upon the year ending July 31, 1923, under the rates as set forth herein.

TABLE NO. 2

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Valley Natural Gas Co. and Midway Gas Co.
Valley System

ESTIMATED OPERATING STATEMENT FOR YEAR ENDING JULY 31, 1923

Based Upon Commission's Estimate

REVENUE		
Gas Sales		$1,698,675
OPERATING EXPENSES		
Production		
Natural Gas Purchased	$ 1,104,680	
Other Expenses	110,000	
Transmission	24,075	
Distribution	35,750	
Commercial	30,025	
General	37,125	
Total Operating Expenses		$1,341,655
TAXES		
State & Federal		93,620
UNCOLLECTIBLE BILLS		1,000
TOTAL		$1,436,275
Net Available for Depreciation Return		262,400
Estimated Rate Base		1,550,000
Rate for Depreciation & Return on Estimated Rate Base		16.91%

The allowance for depreciation heretofore found reasonably applicable to a natural gas system such as this in which the life of the property depends mainly on the continued life of the oil fields, has been 7% per annum. Allowing this rate of depreciation, the net return to be obtained under proposed rates will be approximately 10%, which return appears to us to be reasonable when consideration is given to the nature of the service, uncertain life of the oil fields and volume of business.

The rates herein authorized represent an increase of 1 cent per 1000 cubic feet for industrial service in the Midway fields, 1 cent per 1000 cubic feet in the Elk Hills fields, 2 cents per 1000 cubic feet in the Kern River Fields, 2 cents per 1000 cubic feet for re-sale to West Side Gas Company, 1½ cents per 1000 cubic feet for re-sale to the San Joaquin Light and Power Corporation at Bakersfield and 1 cent per 1000 cubic feet for steam plant operation to San Joaquin Light and Power Corporation.

O R D E R

Valley Natural Gas Company and Midway Gas Company, as lessee of the properties of Valley Natural Gas Company, having applied to the Railroad Commission for an order granting authority to increase the rates for natural gas sold for industrial purposes, wholesale purpose to other utility companies and for the operation of the steam driven electric generating plants of San Joaquin Light and Power Corporation, a public hearing having been held and the matter having been submitted and being now ready for decision, the Railroad Commission of the State of California hereby finds as a fact that the industrial and wholesale rates now being charged upon the system of Valley Natural Gas Company in so far as they differ from the rates herein fixed, are not just and reasonable rates, and that the rates herein established are just and reasonable rates for gas for industrial and wholesale service.

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 Valley Natural Gas Company and

Midway Gas Company as lessee of the properties of Valley Natural Gas Company be, and they are hereby authorized to charge and collect the following rates for gas for industrial and wholesale service in the several districts of the Valley Division of Midway Gas Company, which rates shall be effective for all regular meter readings taken on and after the 1st day of October, 1922.

SCHEDULE NO. B-3

VALLEY DIVISION.

Industrial Service:
Applicable to the sale of surplus natural gas for fuel purposes in boilers, furnaces, forges, etc.

Territory:
Applicable to District No. 1, being territory adjacent to the distributing lines of the Valley System in the Midway Fields and on the Bakersfield transmission line west of and including Rio Bravo.

Rate:
Ten cents per 1000 cubic feet.

Special Conditions:
Service is subject to discontinuance without notice in case of a shortage of gas.

SCHEDULE NO. B-4

VALLEY DIVISION.

Industrial Service:
Applicable to the sale of surplus natural gas for fuel purposes in boilers, furnaces, forges, etc.

Territory:
Applicable to District No. 2, being territory adjacent to the distributing lines of the Valley System in the Kern River fields and on the Bakersfield transmission line east of Rio Bravo.

Rate:
Twelve cents per 1000 cubic feet.

Special Conditions:
Service is subject to discontinuance without notice in case of a shortage of gas.

SCHEDULE NO. B-5

VALLEY DIVISION

Industrial Service:
Applicable to the sale of surplus natural gas for fuel purposes in boilers, furnaces and forges, etc.

Territory:
Applicable to District No. 3, being territory adjacent to the eight inch pipe line beginning at Elk Hills and terminating at the Southern Pacific Railroad at Button Willow.

Rate:
Eleven cents per 1000 cubic feet.

Special Conditions:
Service is subject to discontinuance without notice, in case of a shortage of gas.

SCHEDULE NO. B-6

VALLEY DIVISION

Wholesale Service:
Applicable to gas delivered to other distributing companies as follows:

Territory:
Gas furnished to West Side Gas Company for distribution in the towns of Maricopa, Taft and Fellows, all in Kern County.

Rate:
Twelve cents per 1000 cubic feet.

Special Conditions:
Service to such distributing company for supplying its domestic and commercial consumers only, has precedence over gas engine and industrial service.

SCHEDULE NO. B-7

VALLEY DIVISION

Wholesale Service:
Applicable to gas delivered to other distributing companies as follows:

Territory:
Gas furnished to San Joaquin Light & Power Corporation for distribution in the City of Bakersfield and vicinity and for use in its steam plants at Bakersfield and Button Willow.

Rate:

Class A
For all gas supplied for distribution to domestic, commercial and industrial consumers, fourteen cents per 1000 cubic feet.

Class B
Excess gas furnished San Joaquin Light & Power Corporation's steam plants at Bakersfield, and Buttonwillow, eleven cents per 1000 cubic feet.

Special Conditions:

(a) Consumers under Class A have priority of service over consumers under Class B.

(b) Service to such distributing companies for supplying their domestic and commercial consumers only has precedence over gas engine and industrial service.

IT IS HEREBY FURTHER ORDERED that Valley Natural Gas Company and Midway Gas Company shall file with the Railroad Commission on or before October 1, 1922, the schedule of rates and charges herein set forth.

IT IS HEREBY FURTHER ORDERED that the petition filed by California Farm Bureau Federation, Kern County Farm Bureau and E. Easton, be and the same is hereby denied.

Dated at San Francisco, California, this 8th day of September, 1922.

H. W. Brundige

Irving Martin

Chester H. Rowell

W. J. Benedict

COMMISSIONERS.