

ORIGINAL

Decision No. 1189

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

City of Ontario, a municipal)
corporation,)

Complainant)

vs)

Ontario-Upland Gas Company,)
a corporation)

Defendant)

Case No. 458

Isaac Jones for Complainant

Avery and French for Defendant.

OPINION

ESHELMAN, COMMISSIONER.

The complainant in this case alleges that the rates charged for gas supplied by Ontario-Upland Gas Company to the inhabitants of the City of Ontario are unjust and unreasonable and requests that this Commission establish fair and equitable rates at which such gas shall be sold.

City of Ontario is a municipal corporation of the sixth class having been incorporated under general laws in 1891. On July 29, 1913, at an election duly called and held the City of Ontario voted not to retain its powers of control over certain classes of public utilities and thereafter, as provided by law, the power of control over the defendant company was vested in this Commission.

On August 25, 1913, the board of trustees of the City of Ontario passed a resolution authorizing the present action and subsequently, on September 2, 1913, the complaint in this case was duly filed with the Commission.

The franchise under which gas is now being distributed by the defendant company in the City of Ontario was granted by the board of trustees of said city by Ordinance No. 190 on March 2, 1909.

This franchise provides for a gross revenue tax of 2% to take effect five years from the date of grant. The effect of such tax upon future expenses has been considered.

Ontario-Upland Gas Company was incorporated on March 13, 1909 with an authorized capital of \$100,000.00 divided into 100,000 shares of \$1.00 each. Of the authorized capital stock it appears that at least 88,995 shares have been issued as follows:

21,524	shares allotted to subscribers @ 50% per share	\$ 10,762.00
5	Shares to original subscribers @ \$1.00 per share	5.00
42,466	shares allotted to J. R. Anderson on basis of 50% per share in part payment for supplying and erecting plant and laying street mains	21,233.00
25,000	shares allotted as fully paid to J. R. Anderson	<u>(Free)</u>
88,995	Shares	\$ 32,000.00

The difference between the cash or other consideration received on the above issue of the 88,995 shares of capital stock and the par value of the stock so issued amounting to \$56,995.00 is carried on the books as "Cost of Franchise".

The authorized bonded indebtedness of defendant company is \$25,000.00 and this entire amount has been issued and allotted to J. R. Anderson in part payment for supplying and erecting the gas plant in the City of Ontario and laying street mains in Ontario and Upland. The bonds bear interest at 7% and are redeemable on June 1, 1921, at par. The issue is secured by a certain Trust Deed which however does not contain any arrangement for the redemption of the bonds, nor has defendant company made any provision for paying them off at maturity.

It will be noted that the total par face value of stocks and bonds delivered to J. R. Anderson in payment for the gas plant and distributing system acquired by the Ontario-Upland Gas Company was \$92,446.00, although 42,446 shares of stock, as above noted, were allotted to said J. R. Anderson on the basis of 50% per share and 25,000 shares in addition appear to have been in

the nature of a bonus. This will closely correspond to the value of the plant and street mains acquired as carried on the books of the company prior to December 1912.

Service in Ontario was inaugurated in July 1909 and since that date defendant has been continuously engaged in the manufacture of gas and its distribution in the incorporated towns of Ontario and Upland.

The gas manufacturing plant of the Ontario-Upland Gas Company is located in the outskirts of the City of Ontario and consists of two 4 foot Boals oil gas generators with the necessary scrubbers, purifiers and accessory equipment. The rated output capacity of the plant is 10,000 cubic feet per hour but the actual maximum daily capacity probably does not exceed 120,000 cubic feet of gas. The storage equipment consists of one 30,000 cubic foot (capacity) steel holder. The present purifier capacity appears to be inadequate and provision is now being made to install an additional unit with necessary piping which will insure complete purification even with a largely increased output.

The maximum daily demand on the manufacturing plant has not, up to the present time, exceeded about 90,000 cubic feet and inasmuch as the present generator capacity is sufficient to take care of double this maximum demand it will be evident that with increased purifier capacity the plant should be ample for the needs of the territory served until the daily demand for gas has increased 100%. The holder capacity while only sufficient to carry the maximum demand for a few hours in the event of the plant being entirely disabled is thought to be ample because the possibility of both generators becoming inoperative at the same time is very remote.

The gas is generated intermittently, purified and stored in the holder at about five inch (water) pressure, which is sufficient to maintain an adequate pressure at consumers meters except during the three daily peaks when it is necessary to operate a small booster. This booster raises the pressure at the plant to about fifteen inches (water) and serves to compensate for the drop in pressure due to the heavy demands over the peak periods.

From the plant the gas is transmitted through a six inch main to the distribution center in Ontario from where it is distributed to the various

consumers through five, four and two inch laterals. The six inch transmission main is continued in a northerly direction to the town of Upland being tied in with a four inch loop line at about the northern limits of Ontario and a similar system of distribution laterals has been laid in Upland. Where possible all mains and laterals have been laid in alleys to avoid subsequent paving expense and the entire plant appears to be in excellent operating condition.

As to the quality of the gas produced at the Ontario plant no reliable data appears to be available. No analysis has been made to determine the composition of and impurities in the gas and no tests have been made to ascertain its calorific value.

Defendant company now has in service some 971 meters of which about 70% are connected with the Ontario distribution system and approximately 30% with the distribution system in Upland.

The gas sold during the year 1912 was about 17,060,900 cubic feet and 9,137,300 cubic feet during the first six months of 1913. Assuming that the sales during the year 1914 will be equal only to double the gas delivered during the first half of the year 1913, the total sales during the year 1914 will be 18,274,600 cubic feet. Taking into consideration the fact that the sales during the first half of 1913 did not show the normal increase, the basis used will give a very conservative estimate of the probable amount of gas which will be sold during 1914.

The present rates of the Ontario-Upland Gas Company as filed with this Commission on May 16, 1912, and which apply uniformly to all territory served by defendant including the City of Ontario are as follows:

\$1.75 per thousand cubic feet subject to a discount of 25cents per thousand cubic feet if bills are paid on or before the 15th of the month in which the said bill is rendered.

All bills for 5,000 cubic feet and over of gas consumed during any one month are subject to the following discounts:

5,000 to 7,500 cubic feet	5 percent
7,500 to 10,000 cubic feet	10 percent
10,000 to 15,000 cubic feet	15 percent
15,000 to 50,000 cubic feet	20 percent
50,000 to 75,000 cubic feet	25 percent
75,000 cubic feet and over	33-1/3 per cent

No minimum charge is collected.

The book value of the physical plant of the Ontario-Upland Gas Company, as shown by the company's book, is as follows:

As of September 30, 1913:

Land devoted to gas operations	\$ 800.00
Gas plant building and general structures	1,634.00
Gas holders	9,000.00
Furnaces, boilers and accessories	1,497.84
Gas generators	5,250.00
Purification apparatus	3,750.00
Steam engines	1,098.36
Accessory equipment	2,412.46
Distribution mains	31,092.92
Gas services	1,640.59
Gas meters	5,913.44
Gas regulators	18.50
Miscellaneous distribution equipment	694.80
Stove room and shop	329.48
Office equipment	587.34
Commercial Arc lamps	148.08
Materials and supplies	<u>1,908.60</u>
Total	\$67,776.45
Intangible Assets	
Organization Expense	<u>483.48</u>
Total	\$68,259.93

The Commission's engineering department has made the following estimate of the cost to reproduce and the present value of the plant and system of defendant company:

<u>Item</u>	<u>Cost of Reproduction</u>	<u>Present Value</u>
Real Estate	\$ 800.00	\$ 800.00
Buildings	2,900.00	1,600.00
Generating equipment	13,848.00	11,080.00
Mains	25,412.00	20,328.00
Services	1,762.00	1,411.00
Meters	6,692.00	5,354.00
Furniture, teams, etc.	1,639.00	1,421.00
Material-Supplies	1,908.00	1,908.00
Organization Expense	806.00	806.00
Contingencies	2,526.00	2,526.00
Engineering and Superintendence	4,511.00	4,511.00
Interest during construction	<u>1,827.00</u>	<u>1,827.00</u>
Total Operative	\$63,731.00	\$53,572.00
Total Non-operative	<u>1,200.00</u>	<u>1,200.00</u>
Total	\$64,931.00	\$54,772.00

The earnings of defendant company for the year 1912 and the first nine months of 1913 were as follows:

<u>Earnings</u>	<u>Year to Dec.</u> <u>31, 1912</u>	<u>9 months to</u> <u>Sept. 30, 1913</u>
Sales of Gas		
Ontario & Upland including prepaid meters	\$ 27,490.80	\$18,909.57
Profit on sale of stoves and ranges	315.73	126.75
Profit on house services	437.45	218.05
" " oil sales	<u>610.90</u>	<u>65.00</u>
	1,364.13	469.80
Total earnings	\$28,854.93	\$19,379.37

The sale of gas for the first nine months of 1912 was \$17,962.75, showing an increase for the same period during 1913 of \$946.92 or 5.3%. This increase is less than normal.

The operating expenses of defendant company for the year 1912 as shown by the books amounted to \$12,460.27, exclusive of taxes. For the first six months of 1913 the corresponding amount was \$7,768.53, corresponding to an increase of 19.7% over 1912. Per thousand feet of gas sold the expense amounted to \$0.7328 in 1912 and \$0.8503 in 1913.

This difference in operating expense can not be attributed to the increased business since it is greater by 12% per M. cubic feet sold. After careful analysis of each item of expense in toto and on a unit basis, it appears that a portion is accounted for by certain repairs to plant which will not normally recur annually. Accordingly, they have been distributed over the proper interval.

In ascertaining operating expenses for the future, the mean per unit consumption of 1912 and 1913 has been adopted as more reasonable and stable basis. A direct analytical comparison of each expense between 1912 and 1913 is not possible due to the altered system of accounting inaugurated in 1913. The unit expense so obtained has been adjusted to include an increase in salary of the secretary of \$15 per month.

This operating expense does not include taxes, which are on a gross revenue basis as follows:

State	4.6%
City Franchise	
Tax	<u>2.0%</u>
Total	6.6%

Disregarding the fixed charges on the investment and which we will assume to cover merely interest and an allowance for depreciation, and segregating to the supply and appliance business of defendant \$371.32, corresponding to double the business promotion expense ~~of~~ for the first six months of 1913, we find that the entire operating cost of gas to be supplied during 1914 on the basis hereinbefore assumed, not including state or municipal franchise taxes, will be 77.55 cents per thousand cubic feet.

The amount provided for depreciation by defendant company is evidently excessive and is arrived at merely by taking 7% of the book value of the physical property, after deducting accounts subject to appreciation and those adjusted from inventory. I am persuaded from the evidence that this allowance should not exceed 3% of the value of the entire physical property.

After a careful consideration of all the facts and circumstances surrounding this case, I am of the opinion that a uniform rate of \$1.25 per thousand cubic feet should be established by this Commission for all gas sold by the Ontario-Upland Gas Company in the City of Ontario. This rate will be sufficient to provide, on a very liberal basis, for all operating expenses, in addition to allowing 3% for depreciation and 8% interest on the book value of the physical property, as contended for by the defendant, or a total allowance for interest and depreciation of over 11.7% on the reproduction value of operative physical property as estimated by the Commission's engineering department. While this is undoubtedly liberal, I believe that under all the circumstances such liberality is justified.

At the preliminary hearing in this case defendant requested that the Commission consider the advisability of a minimum monthly charge in fixing a rate based on its readiness to serve. The city does not object to the establishment of such a minimum. The Commission

has in the past explained its attitude in regard to a minimum for this class of service, and finds that a minimum charge of 50% per meter is justified in this case.

The effect of such a minimum charge on the 1913 business of the company is to increase the revenue \$470 per annum. The effect of such additional income has been considered in fixing the rate.

The service of this company covers the City of Ontario, complainant, and the adjoining municipality of Upland, which is not involved in this action. No unincorporated territory is served. Accordingly, it is necessary to determine some method of apportioning the capital and operating expense to each district. Consumption has been selected as the proper basis in this case. Such segregation is automatically obtained if a full cost rate is calculated per unit of gas sold.

Although the order in this case is not applicable to Upland, nevertheless it would be unjust to the utility to consider the effect on income of a higher rate in a locality not subject to our control.

In reaching a conclusion in this case I have taken into consideration the fact that no very substantial difference of opinion exists between the engineers of this Commission and the engineer of the company as to matters of valuation, but it should be understood that in subsequent investigations on this company whatever modifications of the book cost which may be found necessary will be made.

I have fixed the minimum charge of 50%, which is somewhat lower than the one ordinarily in effect, because there has heretofore been no minimum charge, and it is my opinion that changes from one system of rates to another should be gradual so long as justice is done to all parties.

I likewise have not taken into consideration the fact that this territory is increasing in population and that the amount of gas to be served should increase and probably the cost per unit decrease in the future. While it is not the design of this Commission to deny

to utilities a liberal return upon the proper investment, yet as the cost of performing this service shall decrease in the future subsequent adjustments of the rates should be made. For the present, however, I believe that the minimum monthly charge of 50¢ together with the rate fixed is just and reasonable. This minimum charge should apply to all meters, including the so-called prepaid meters which are in use in Ontario.

Since the foregoing opinion was dictated, the attorney for the company, defendant herein, has called to this Commission's attention the fact that the gas holders in use in the City of Oakdale with which Mr. Kelley, engineer for this Commission, compared the Ontario plant, are of a different construction, being of thinner iron and costing from \$1500 to \$2000 less than the holders at Ontario. Under the disposition that has been made of this case, however, it becomes unnecessary to consider this matter further because I believe when the necessary additions are required to this company's plant that they should be made and that if such additions require an adjustment of rates such may be done hereafter.

I submit the following order:

O R D E R .

THE CITY OF ONTARIO having filed with this Commission its complaint against the Ontario-Upland Gas Company alleging that said company's existing rates for artificial gas are unjust and unreasonable and requesting this Commission to establish rates which shall be just and reasonable, and a hearing having been held, and being fully apprised in the premises,

THE COMMISSION HEREBY FINDS AS A FACT that the existing rates charged and collected in the City of Ontario by the defendant herein, are unjust and unreasonable, and that a just and reasonable rate for gas to be charged and collected in the City of Ontario by the defendant herein is one and 25/100 (\$1.25) dollars per thousand

cubic feet of gas delivered with a minimum monthly charge of fifty (50) cents per meter.

And basing its order on the foregoing findings of fact,

IT IS HEREBY ORDERED that the Ontario-Upland Gas Company publish and file with this Commission a rate of one and 25/100 (\$1.25) dollars per thousand cubic feet of gas to be delivered to its consumers within the City of Ontario with a monthly minimum charge of fifty (50) cents per meter.

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 3rd day of January, 1914.

John M. Costleman
W. B. Loveland
W. B. Loveland
Max Thelen

Commissioners.