BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

ORIGINAL

Decision No. 1532

In the matter of the investigation on Commission's own motion into the charge for Natural Gas by California Natural Gas Company to West Side Gas Company.

Case No. 562.

Pillsbury, Madison & Sutro for California Natural Gas Co.
Fred L. Seybolt, City Attorney, for City of Taft.
George E. Whitaker for West Side Gas Company.

THELEN, Commissioner.

OPINION.

This is an investigation on the Commission's own motion into the charge for natural gas by California Natural Gas Company to West Side Gas Company. The investigation grew out of Case No. 516, City of Taft vs. West Side Gas Company. When a portion of the evidence had been taken in that case it appeared that it would be impossible to dispose of the issues in that case definitely and satisfactorily unless the price paid for natural gas by West Side Gas Company to California Natural Gas Company were investigated and determined. The Commission accordingly instituted this investigation on its own motion.

The towns of Taft and Maricopa receive their supply of natural gas from West Side Gas Company, which in turn receives the same from the California Natural Gas Company in accordance with the provisions of a contract dated December 11, 1911, between California Natural Gas Company and Joseph McDonald and J. G. McDonald, which contract was thereafter, on March 5, 1912, assigned by the McDonalds to West Side Gas Company, with the consent of the California Natural Gas Company. The contract provides, in part, that the volume of gas taken shall be on a 4-ounce pressure basis above 14.4 pounds per square inch, atmospheric pressure, and that the gas shall be measured by a natural gas meter of standard make, or by pilot tube, or other measuring device, supplied by the California Natural Gas Company; that the gas is to be paid for at the rate of 25¢ per thousand cubic feet, measured on the hereinbefore specified basis, with a discount of 5¢ per thousand cubic feet if paid before the 20th day of the calendar month following that in which the gas is supplied; that the McDonalds shall not charge their customers in excess of $1.25 per thousand cubic feet for domestic gas and that the California Natural Gas Company shall have the right by giving 30 days' notice, in writing, to direct the McDonalds to reduce their rate for domestic gas to an amount not lower than 60¢ per thousand cubic feet; that delivery of natural gas shall be made by California Natural Gas Company at an adequate pressure, the maximum line pressure not to exceed 50 pounds at the point of delivery; that the gas delivered under the contract shall be for the purpose of supplying domestic and industrial consumers in the towns of Taft and Maricopa and their suburbs; and that the agreement shall continue in force for three years from date, and unless then terminated by 30 days' notice, in writing, thereafter from year to year until terminated by a 60 days' notice in writing before the end of any given year.

The West Side Gas Company, as assignee of the McDonalds, has been paying its bills to the California Natural Gas Company before the 20th day of the calendar month following that in which the gas has been supplied, and has received the discount of 5¢ per thousand cubic feet, so that the cost of this gas to the West Side Gas Company has been 20¢ per thousand cubic feet, measured under the pressure specified in the contract.

The natural gas delivered by the California Natural Gas Company is received by that company from its parent company, the Standard Oil Company and from the Honolulu Consolidated Oil Company, from the natural gas wells of these companies located in the Buena Vista Hills fields, in Kern county.

The amount of gas delivered by the California Natural Gas Company for consumption in the towns of Taft and Maricopa constitutes only a very small portion of the total gas sold by the company. The major portion of its gas is sold for use in the oil fields and in Bakersfield.

The following table shows the depreciated reproduction value of the property of the California Natural Gas Company engaged in its business as a public utility, the amount of this property segregated to the Bakersfield service, as determined in Case No. 357, and the depreciated reproduction value of the company's remaining properties:

TABLE NO. I.

	Depreciated value as of Jan.1,1914	Segregated to Bakersfield Service, Cs.357	Present Value Remaining Properties.
Well Equipment	$ 15,259.01	$ 1,960.00	$ 13,299.01
Pipe Lines	298,845.89	80,763.23	218,082.66
Telephone Line	2,398.94	1,062.33	1,336.61
Measuring Station (Bakersfield)	4,120.60	4,120.60	--------
General Structures	5,213.01	754.42	4,458.59
Gen. and Misc. Equipment	19,170.02	2,774.27	16,395.75
	$345,007.47	$91,434.85	$253,572.62

It will be observed from the foregoing table that the depreciated reproduction value of the company's property as of January 1, 1914, amounts to $345,007.47, and that the property segregated to the Bakersfield service amounts to $91,434.85, thus leaving a value of the remaining properties, engaged in the service of the oil fields and of Taft, Maricopa and Fellows, amounting to $253,572.62.

The following table shows the depreciated reproduction value of the company's property, less that chargeable to the Bakersfield service, the estimated salvage value, the net depreciable value and a proper sum to be allowed annually as a depreciation annuity:

TABLE NO. II.

	Present Value (Less Bakersfield)	Salvage Value	Net Depreciable Value	Depreciation Annuity
Well Equipment	$ 13,299.01	$2,659.80	$ 10,639.21	$ 845.87
Pipe Lines	218,082.66	17,307.33	200,775.33	15,962.56
Telephone Line	1,336.61	267.32	1,069.29	85.01
General Structures	4,458.59	1,730.70	2,727.89	217.04
Gen. and Misc. Equipment	16,395.75	532.86	15,862.89	1,261.17
	$253,572.62	$22,498.01	$231,074.61	$18,371.65

It is proper to say that the property values shown in Tables No. I and No.II, and also the value of the property segregated to the Bakersfield service have been furnished by the California Natural Gas Company itself, and have been accepted by this Commission. Depreciation in Table No.II has been estimated on the sinking fund basis, with interest at the rate of 5% per annum. The entire present value, less salvage, is to be amortized during a period of ten years, on the basis of a ten year life of the gas field.

The following table shows the fixed capital and the depreciation annuity as estimated for the Taft service by this Commission's gas and electrical department:

TABLE NO. III

	Present Value all properties less those segregated to Bakersfield service	Segregated to Taft and South Taft service	Depreciation Annuity prorated to Taft
Well equipment, etc.,	$ 13,299.01	$ 165.20	$ 10.51
Pipe Lines	218,082.66	2,709.04	198.29
Telephone Lines	1,028.94	16.60	1.06
General Structures	4,458.59	55.41	2.70
Gen. and Misc. Equipment	16,395.75	203.67	15.67
Total	$253,264.95	$3,149.92	$ 228.23
Measuring Station		140.00	11.13
Meter and Regulators		259.55	10.31
Total		$3,549.47	$ 249.67

In segregating fixed capital and depreciation annuity to the Taft service, the basis established is the percentage found by dividing the Taft sales for 1913 by the company's entire sales for the year 1913, exclusive of Bakersfield. This percentage is 1.2422%.

The California Natural Gas Company submitted a statement showing estimated cost of building a single transmission line to Fellows, Taft and Maricopa, and also estimated earnings and operating expenses for such line. This statement was submitted on the assumption that the Taft, Maricopa and Fellows business be segregated from the remaining business of the company and that a transmission line be constructed from the gas wells in the field to serve these towns alone. The hypothesis on which this estimate is made is entirely at variance with the facts, for the reason that the mains through which Taft, Maricopa and Fellows receive their supply of natural gas are an integral portion of the California Natural Gas Company's network of transmission mains in the oil fields, and that the mains through which these towns receive their supply of natural gas are principally used for the supply of gas for industrial purposes in the oil fields. This estimate shows a total investment chargeable to the Taft service of $30,569.41, as contrasted with the estimate of this Commission's gas and electrical department, as indicated in Table No.III, amounting to $3549.47. Upon noting this very large discrepancy between the estimate of the California Natural Gas Company and the estimate of this Commission's gas and electrical department, the Commission re-opened the case and set the same for further hearing for May 14, 1914, so as to permit the officials of the California Natural Gas Company to present their views in further detail, and so as to enable the Commission to cross-examine its experts in order to test the correctness of their conclusions. The Commission and the California Natural Gas Company thereupon arranged for a conference between the company's officers and this Commission's gas and electrical department to see if an agreement could not be reached. As the result of this conference Mr. McMahon, representing the California Natural Gas Company, appeared at the further hearing on May 14, 1914, and stated that on the basis of existing conditions in the fields, his company was willing to concede the correctness of the figures presented by this Commission's gas and electric rate department. He stated that his company recognized that the highest use of natural gas would be subserved by domestic consumption and that the company was trying gradually to utilize its gas more for this purpose than for industrial uses in the oil fields, and stated, very properly, that if this change were accomplished, it might hereafter be that the company's rate for gas delivered for domestic service might have to be increased. While this frank attitude on the part of the representatives of the California Natural Gas Company leaves no alternative to this Commission but to make a very substantial reduction in the rate charged by that company to the West Side Gas Company, the Commission desires the California Natural Gas Company to know that the rate herein established is fixed on the existing conditions, and that if conditions hereafter change by reason of the diversion of the gas from industrial uses to domestic uses, in accordance with the higher use of the gas and the clear public policy involved, this Commission will be ready to revise the rates in accordance with the changed conditions.

The following table shows the cost of natural gas delivered at Taft on the bases hereinafter explained:

TABLE NO. IV.

Interest on $3549.47 at 9%,	$319.45	
Depreciation as per Table II,	249.67	
Total fixed charges,		$ 569.12
Operating Expense	290.83	
Maintenance Measuring Station	7.99	
Gas purchased (51,459,892 cu.ft.)	2,573.00	
Taxes	165.91	
Total operating		3,037.73
Total cost of service		$3,606.85

Cost of gas at Taft......7.009¢ per M cu.ft.

In the foregoing table interest has been allowed at the rate of 9%, which rate, under the circumstances surrounding the business of this company, is deemed to be fair. The amount allowed for depreciation is ascertained as shown by Table No. II. The company's total operating expense, amounting to $27,373.93, less the sum of $3961.53, chargeable to the Bakersfield division, has been prorated on the same basis used for the segregation of capital, viz., on the basis of a charge of 1.2422 per cent to the Taft service. An allowance of 2% on investment has been made for maintenance of the measuring station at Taft. The quantity of gas purchased by California Natural Gas Company has been computed on the basis of the sales to West Side Gas Company for the year 1913, increased by 17.8% estimated increased consumption for the year 1914, which estimated amount has been further increased to provide for a loss of 20% in local distribution. Under its contract with the Standard Oil Company, the California Natural Gas Company pays 5¢ per thousand cubic feet to the owners of the gas wells from which it receives its gas. 51,459,892 cubic feet of gas at the rate of 5¢ per thousand cubic feet, amounts to a total sum of $2,573.00, which the California Natural Gas Company will be compelled to pay for its natural gas for the Taft service during the year 1914, on the foregoing basis.

It appears from Table No. IV, that the price to be charged by the California Natural Gas Company for its gas delivered to West Side Gas Company should be 7.009¢ per thousand cubic feet. During the year 1913, 4,214,545,000 cubic feet out of a total of 4,802,737,000 cubic feet of gas sold by California Natural Gas Company, was sold at the rate of 7¢ per thousand cubic feet.

The rate of 7¢ per thousand cubic feet for gas sold to the West Side Gas Company is a fair rate for this service, and also eliminates all discrimination between the field consumers and the West Side Gas Company. I accordingly find, on the facts of this case, that a fair and reasonable rate to be charged to West Side Gas Company, under existing conditions, for natural gas, is the sum of 7¢ per thousand cubic feet, on a 4-ounce pressure basis above 14.4 pounds per square inch, atmospheric pressure.

I submit herewith the following form of order:

O R D E R.

The Railroad Commission having instituted, of its own motion, an investigation into the rate charged for natural gas by CALIFORNIA NATURAL GAS COMPANY to WEST SIDE GAS COMPANY, and public hearings having been held in said proceeding, and the case having been submitted and being now ready for decision,

THE RAILROAD COMMISSION HEREBY FINDS AS A FACT, that the existing rate charged for natural gas by California Natural Gas Company to West Side Gas Company is an unreasonable rate, and that a fair and reasonable rate for natural gas delivered by California Natural Gas Company to West Side Gas Company is the rate of seven (7) cents per thousand cubic feet of gas delivered under a four (4) ounce pressure basis above 14.4 pounds per square inch, atmospheric pressure.

Basing its conclusion upon the foregoing finding of fact and on the further findings which are contained in the opinion which precedes this order,

IT IS HEREBY ORDERED that California Natural Gas Company, within thirty (30) days from the receipt of a certified copy of this order, establish a rate of seven (7) cents per thousand cubic feet of gas delivered to West Side Gas Company, on a four (4) ounce pressure basis above 14.4 pounds per square inch, atmospheric pressure, and file such rate with this Commission.

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 21st day of May, 1914.

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Alex Gordon

Max Thelen

Edwin O. Edgerton

Commissioners.

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