

Decision No. 1533

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

CITY OF TAFT, a Municipal Corporation,

Complainant,

vs.

WEST SIDE GAS COMPANY,
a Corporation,

Defendant.

ORIGINAL

Case No. 516.

Fred L. Seybolt, City Attorney, for Complainant.
George E. Whitaker for Defendant.

THELEN, Commissioner.

O P I N I O N.

The issue in this case is the rate to be charged for natural gas delivered within the city of Taft.

The complainant alleges, in effect, that the city of Taft is a municipal corporation of the sixth class; that the defendant is a corporation engaged in the business of selling and distributing natural gas for heating, cooking and lighting purposes to the inhabitants of the city of Taft and territory contiguous thereto; that defendant is a public utility; that at an election held in the city of Taft on November 11, 1913, the city of Taft transferred to the Railroad Commission the city's powers over all classes of public utilities; that on March 17, 1913, the city of Taft adopted Ordinance No. 46, establishing the rates to be charged for gas delivered within the city of Taft during the year beginning July 1, 1913 and ending June 30, 1914, a copy of which ordinance is attached to the complaint and marked "Exhibit B"; that prior to said first day of July, 1913, the defendant commenced an action in equity against the city of Taft in the Federal courts and secured an order restraining the city of Taft and its officers from enforcing said ordinance, pendente lite; that since the issue

of said restraining order, the defendant has continued to collect from the inhabitants of the city of Taft the rates or charges in effect prior to said first day of July, 1913, which rates and charges are set out in a statement marked "Exhibit C," and attached to the complaint; and that the rates charged by defendant are unjust and unreasonable. The complaint concludes with a prayer that this Commission establish the rate which shall be charged by defendant for gas furnished to the city of Taft and the inhabitants thereof.

Exhibit "B", attached to the complaint, shows the rates for gas which the city of Taft attempted to make effective for the year beginning July 1, 1913. These rates are as follows:

For the first 10,000 cu. ft.,	.....	75¢	per	M	cu. ft.
" " 2nd	" " "	.....	60¢	" " "	"
" " 3rd	" " "	.....	48 3/4	" " "	"
All quantities over and above 30,000 cu.ft		37 1/2¢	" " "		
Minimum charge.....		\$1.00	per	month	

Exhibit "C", attached to the complaint, shows the rate at present being collected by the West Side Gas Company for gas supplied to the city of Taft and the inhabitants thereof. These rates are as follows:

For the first 10,000 cu.ft.....	\$1.00	per	M	cu. ft.
" " 2nd	" " .....	.80	" " "	"
" " 3rd	" " .....	.65	" " "	"
All over 30,000 cu. ft.....	.50	" " "		"
Minimum charge.....	1.00	per	month	

The answer admits that defendant is charging the rates specified in Exhibit "C", attached to the complaint; denies that any of such rates are unfair or unjust; and alleges that said rates are fair, just and reasonable, and do not afford the defendant other than a fair, just and reasonable return on its investment. The defendant prays that the complaint be dismissed and that plaintiff take nothing by its action.

Public hearings in this case were held in the city of Taft on March 12, 1914, and in the city of San Francisco on April 4, 1914. The decision in this case has necessarily awaited the disposition of Case No. 562, being this Commission's investigation in the matter of the rate charged West Side Gas Company by California Natural Gas Company for the gas distributed by the West Side Gas Company in Taft. The last hearing in the latter case was held in the city of San Francisco on May 14, 1914, and the present proceeding is now ready for decision. Reference is hereby made to this Commission's decision this day rendered in Case No. 562, for the rate to be charged by the California Natural Gas Company for natural gas delivered to West Side Gas Company, which rate has been established at the sum of 7¢ per thousand cubic feet of natural gas delivered under a 4-ounce pressure basis above 14.4 pounds per square inch, atmospheric pressure.

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Natural gas was first supplied for domestic use in the city of Taft, as the result of an agreement dated December 9, 1911, between the California Natural Gas Company and Joseph McDonald and J. G. McDonald, under which agreement the California Natural Gas Company agreed to deliver to the McDonalds such natural gas as they might sell to domestic and industrial consumers in the towns of Taft and Maricopa and their suburbs, at the rate of 25¢ per thousand cubic feet, measured on a 4-ounce pressure basis above 14.4 pounds per square inch, atmospheric pressure, with a discount of 5¢ per thousand cubic feet, in case payments were made prior to the 15th day of the calendar month following that in which the gas was supplied. The McDonalds thereafter incorporated the West Side Gas Company, and by assignment of March 5, 1912, consented to by the California Natural Gas Company, assigned all their rights in said contract to the West Side Gas Company. The McDonalds and their assignee, the West Side Gas Company, constructed a local distributing system for the distribution and delivery of natural gas in the towns of Taft and Maricopa and in territory adjoining to Taft on the south, known as Boust City or South Taft. Ever since the

early part of 1912, the McDonalds and the West Side Gas Company, their assignee, have been receiving natural gas from the California Natural Gas Company at wholesale, and have been selling it to customers in Taft, Bonst City and Maricopa.

This Commission's gas and electrical rate department prepared a careful inventory and appraisal of the property of the West Side Gas Company, which appraisal was introduced in evidence and marked "Railroad Commission's Exhibit No. 1." This exhibit shows the estimated original cost, on the basis of the prices obtaining at the time the system was installed, the depreciated reproduction value on the basis of this estimate of original cost, the estimated reproduction value new as of the time of the appraisal and the depreciated reproduction value on the basis of this estimate, as follows:

TABLE NO. 1.

	<u>Estimated Original Cost</u>	<u>Depreciated Reproduction Value</u>	<u>Reproduction Value New</u>	<u>Depreciated Reproduction Value</u>
Lands	\$ 4,110.00	\$ 4,110.00	\$ 4,110.00	\$ 4,110.00
General Structures	1,631.91	1,274.39	1,530.99	1,195.92
Transmission Mains and Equipment	2,474.52	1,769.28	2,376.45	1,699.16
Distribution Mains and Equipment	7,360.88	5,263.02	6,261.60	4,477.04
Services	760.00	543.40	685.50	490.13
Meters & Regulators	4,539.15	3,631.32	4,305.83	3,444.66
Furniture & Fixtures	910.50	682.87	906.95	680.21
Shop Equipment	378.02	283.51	378.02	283.51
Stock on Hand	245.82	245.82	245.82	245.82
Automobile & Motorcycle	1,550.00	620.00	1,550.00	620.00
Total	\$23,960.00	\$18,423.61	\$22,351.16	\$17,346.45

The evidence shows that the price paid for the West Side Gas Company's parcel of real property in the city of Taft was \$2250.00, instead of \$4110.00. The evidence also shows that the unit prices used by this Commission's experts for transmission and distribution mains are in excess of the actual cost to the West Side Gas Company and in excess of the money which it would take at the present time to reproduce the same.

In view of the evidence on these points, I am of the opinion

that the values appearing in the following table may be taken to represent a fair estimate of the value of the property to be used as the basis of return in this proceeding. The table also shows the salvage value of the property, its net depreciable value and the depreciation annuity necessary to be set aside, year by year, on the basis of retiring the entire investment, less salvage, in ten years:

<u>TABLE NO. II.</u>				
	<u>Value of Property</u>	<u>Salvage Value</u>	<u>Net Depreciable Value</u>	<u>Depreciation Annuity.</u>
Real Estate	\$ 2,250.00	\$ 2,250.00		
General Structures	1,631.91	443.00	\$ 1,188.91	\$ 94.52
Transmission Mains, etc.,	2,376.45	48.00	2,328.45	185.12
Distribution Mains, etc.,	6,261.60	-----	6,261.60	497.83
Services	760.00	-----	760.00	60.42
Meters and Regulators	4,539.00	1,585.00	2,954.00	293.94
Furniture and Fixtures	910.50	121.00	789.50	78.56
Shop Equipment	378.02	-----	378.02	39.59
Stock on Hand	245.82	147.00	98.82	9.83
Automobile and Motorcycle	1,550.00	-----	1,550.00	280.51
Total	\$20,903.30	\$ 4,594.00	\$16,309.30	\$ 1,540.32

In the foregoing table the sinking fund method has been used in ascertaining depreciation annuity and the rate of interest employed is 5%.

The foregoing table shows all the physical property of the West Side Gas Company without any segregation of the property devoted to the service of the city of Taft as distinguished from that which is devoted to the service of Maricopa.

The following table shows an estimate of the property devoted to the service of Taft alone, together with a salvage value thereof, the net depreciable value and the depreciation annuity, the salvage value, net depreciable value, and depreciation annuity being estimated in the manner hereinbefore indicated in connection with Table No. II:

TABLE NO. III:

	Value of Property	Salvage Value	Net Depreciable Value	Depreciation Annuity
Real Estate(Prorated)	\$ 1,503.60	\$1,503.60	\$ -----	\$ -----
General Structures (Prorated)	1,090.55	296.04	794.51	63.17
Transmission Mains, etc.,	2,376.45	48.00	2,328.45	185.12
Distribution Mains	6,261.60	-----	6,261.60	497.83
Services	760.00	-----	760.00	60.42
Meters and Regulators	4,539.00	1,585.00	2,954.00	293.94
Furniture and Fixtures (Prorated)	608.46	80.86	527.60	41.95
Shop Equipment "	252.62	-----	252.62	26.45
Stock on Hand "	164.27	98.24	66.03	5.25
Automobile and Motorcycle (Prorated)	<u>1,035.81</u>	<u>-----</u>	<u>1,035.81</u>	<u>187.46</u>
Total	\$18,592.36	\$3,611.74	\$14,980.62	\$1,361.59

In the foregoing table, the property used generally in the service to Taft and to Maricopa has been prorated on the basis of the gas sales in 1913 in these two respective communities.

The following table shows the operating expenses in connection with the West Side Gas Company's entire business, including both Taft and Maricopa, as reported by that company for the year 1913:

TABLE NO. IV.

Gas Purchased		\$12,116.04
Transmission Expense	\$ 736.40	
Distribution "	3552.90	
Commercial "	3629.00	
General Officers Salary and Expense	5469.55	
Misc.General and Misc.Expense	<u>3724.11</u>	17,111.96
Taxes		<u>1,074.74</u>
Total Expense		\$30,302.74

The following table shows the operating expenses of West Side Gas Company for its Taft service alone, as reported by the company for the year 1913:

TABLE NO. V.

Gas Purchased		\$ 7,765.79
Transmission Expense	\$ 736.40	
Distribution "	2,160.92	
Commercial "	2,295.66	
Gen. Officers Salary & Expense	3,597.07	
Misc. and General Expense	<u>3,674.99</u>	12,465.04
Taxes		<u>704.72</u>
Total Expense		\$20,935.55

The item "transmission expense, \$736.40," includes the sum of \$300.00 which was expended on account of an exploded meter and cannot be regarded as an expense likely to recur each year. The item "distribution expense, \$2160.92" includes an item for automobile expense, amounting to \$455.68, miscellaneous labor amounting to \$549.34, and other unexplained items. The item "commercial expense, \$2295.66," includes the salary of Miss McDonald in the amount of \$480.00, salary of the secretary, Mr. Ira A. Miller, in the amount of \$635.00, and miscellaneous labor, amounting to \$866.34, and certain items which have not been explained. Only one half of Miss McDonald's salary should be allowed, for the reason that she is not continuously occupied as a "stenographer" or in any other capacity, and Mr. Miller's salary should be charged to the general officers salary and expense account. The next item, "general officers salary and expense, \$3597.07," includes automobile expense amounting to \$59.00, salary of J. G. McDonald, amounting to \$2178.15, salary of Joseph McDonald, amounting to \$272.55, and salary of Ira A. Miller, amounting to \$453.87. The balance of \$633.50 evidently represents some expense of general officers which has not been itemized. The company itself has determined no longer to charge against the Taft business the salary of Joseph McDonald, which has heretofore amounted to \$3600.00 per year. His services are devoted to other business, and it is clear that no charge for salary on his account should be made against the Taft business. The item "miscellaneous and general expense, \$3674.99," includes automobile expense amounting to \$232.02 and salaries of employees, amounting to \$60.00. The remainder of the sum is for items which have not been explained.

After carefully examining into the evidence in this case, I find that the total amounts which should be allowed for interest, depreciation, operating expenses and maintenance and taxes are as shown in the following table:

TABLE NO. VI.

Interest at 9% - \$18,592.36.....	\$ 1,673.31
Depreciation Annuity (Table III)	<u>1,361.59</u>
Total fixed charges	\$ 3,034.90
Gas purchased (36,363,315 cu.ft. @ 7¢)	2,545.43
Transmission Expense	436.40
Distribution Expense	2,160.92
Commercial Expense	1,420.66
General Officers Salary and Expense	4,009.60
Miscellaneous and Gen. Expense	2,483.70
Taxes	<u>776.14</u>
Total Operating Expense	<u>\$13,337.85</u>
Total Expense	<u>\$16,872.75</u>

In the above table, the item "gas purchased, \$2545.43", is the purchase price of 36,363,315 cubic feet of gas at the rate of 7¢ per thousand cubic feet, this being the rate established in Case No. 562, being this Commission's investigation into the rate charged for natural gas by California Natural Gas Company. The total number of cubic feet of gas is the result of starting with the amount of gas sold by West Side Gas Company to its Taft consumers, increased by 17.03%, the estimated increase during 1914, and further increased in the amount of 20% for loss in transmission and distribution between the point of delivery by California Natural Gas Company and the consumers' meters. Although the loss of 20% is apparently excessive, it is 14.7% less than the loss during the first 11 months of 1913. The loss is partly accounted for by the carelessness of the town authorities in breaking gas mains and services during street construction and grading. It cannot be assumed that the loss for 1914 will be so heavy.

The item "general officers salary and expense, \$4009.60," and "miscellaneous and general expense, \$2483.70," have been secured by prorating as between Taft and Maricopa on the basis of gas sales

during 1913, the items of \$6000 and \$3724.11, respectively. The item of \$6000 for ^{general} officers salaries and expenses includes the salary of J. G. McDonald in the sum of \$3600.00, the salary of Ira A. Miller amounting to \$1800.00, and an estimated item of \$600.00 for expenses for general officers. The item of \$3724.11, for miscellaneous and general expense is taken from the company's last annual report to this Commission.

From all the evidence in this case, I find that the rates at present being charged by West Side Gas Company to its customers in the city of Taft are unreasonable rates and that the rates shown in the following table are fair and reasonable rates for natural gas supplied by West Side Gas Company to its customers within the city of Taft and should be established by that company:

TABLE NO. VII.

First	5000	cu. ft.	per month	70¢	per M cu. ft.
Next	20000	"	"	50¢	" " "
Next	50000	"	"	35¢	" " "
Over	75000	"	"	25¢	" " "

Minimum charge \$1.00 per month per meter.

The estimated effect of the foregoing schedule of rates resulting from the application thereof to the business of the West Side Gas Company in the city of Taft is as follows:

TABLE NO. VIII.

	Percentage Consumers Affected	Percentage Consumption	Amount of Gas	Rate	Revenue
1st 5000 cu.ft.	85.86%	38.85%	11,772,623	70¢	\$ 8,240.30
Next 20000 " "	13.08%	39.19%	11,875.653	50¢	5,937.83
Next 50000 " "	.84%	12.71%	3,851,481	35¢	1,348.02
Over 75000 " "	.22%	9.25%	2,803.006	25¢	700.75
	100.00%	100.00%	30,302,763		\$16,227.40
Excess due to minimum					662.27
Total Earnings					\$16,889.67

It will thus be observed that the actual revenue to be derived under the new rates will be slightly in excess of the total expense which has hereinbefore been found to be fairly chargeable to the business of the West Side Gas Company in the city of Taft.

The complainant, at the hearing, drew the Commission's attention to the practice of the West Side Gas Company in connection with the charge of deposits from its customers. While this matter was not formally in issue, both parties agreed that while a formal order should not be made on this subject, the Commission might suggest to the defendant the proper way of handling this question in case the Commission should reach a conclusion thereon.

The evidence shows that although it is usual for the company to charge a deposit of \$5.00 from each customer, certain of the earlier customers have never paid such a deposit, and that in other cases a deposit in excess of \$5.00 has been demanded. The city complained that it did not seem fair to charge a deposit of \$5.00 to a customer whose bill may not run higher than \$1.00 per month. The City Attorney frankly stated that because of the constantly changing population at Taft, it is necessary to adopt some measure to protect the Gas Company against persons who come for only a short while and then go away without paying their gas bills. The City Attorney clearly saw that losses of this kind must be met by the other consumers and that the Gas Company is entitled to protection in the matter, in view of the circumstances surrounding the service of gas at Taft. On the other hand, the only justifiable purpose of demanding a deposit is to insure the payment of a month's bill in advance, and the deposit should not be larger than its purpose warrants. The Commission accordingly suggests to the West Side Gas Company that it divide its consumers into general classes, in accordance with the character of the service rendered, and that as to each of these classes, it ascertain an average month's bill over the period of one year, and that henceforth it charge to each consumer in a particular class a deposit in advance amounting to the sum so ascertained. The company must treat all customers in a particular class alike, so that

there will be no discrimination. Those consumers who at present have no deposit should pay the amount ascertained for the class in which they may find themselves and those consumers who have paid a deposit in excess of the amount found for their particular class should receive back the excess deposit which they have paid. In this way, the company will be properly protected, but it will not be in the position of demanding an amount in excess of a proper deposit, and it will also avoid further discrimination.

We suggest that the company prepare a plan in accordance with this suggestion and that it present the same to this Commission for its approval.

I submit herewith the following form of order:

O R D E R.

Public hearings having been held in the above entitled complaint, and the case having been submitted and being now ready for decision,

THE COMMISSION HEREBY FINDS AS A FACT, that the rates which the WEST SIDE GAS COMPANY is charging its consumers of natural gas in the city of Taft are unreasonably high, and that the rates hereinafter set forth are just and reasonable rates to be charged said consumers.

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

IT IS HEREBY ORDERED that West Side Gas Company be and the same is hereby directed to establish within thirty (30) days from the receipt of a certified copy of this order, the following rates to be charged for natural gas to its customers in the city of Taft, applicable to all consumers:

First	5000	cu. ft. per month	70¢ per 1000 cu. ft.
Next	20000	" " "	50¢ " " "
Next	50000	" " "	35¢ " " "
Over	75000	" " "	25¢ " " "

Minimum charge \$1.00 per month per meter.

AND IT IS FURTHER ORDERED, that West Side Gas Company,
within thirty days from the receipt of a certified copy of this order,
file with this Commission said rates, in compliance with this order.

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.

Alex Gordon
Wm. T. Tuley
Edwin O. Edgerton
Commissioners.