

Decision No. ✓

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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CITY OF MONTEREY (a Municipal Corporation),

Complainant,

vs.

COAST VALLEYS GAS AND ELECTRIC
COMPANY (a Corporation)

Defendant.

ORIGINAL

Case No. 499.

Fred A. Treat for complainant.
Chickering & Gregory, George H. Whipple and
Jared How for defendant.

ESHLEMAN, Commissioner.

O P I N I O N .

This complaint, filed on November 10, 1913, is directed against the rates charged by defendant for manufactured gas in the city of Monterey, which rates are alleged to be unjust and unreasonable.

Complainant in this case, City of Monterey, is a municipal corporation of the sixth class and at an election duly held on April 14, 1913, all powers of control over public utilities theretofore possessed by the city of Monterey were vested in this Commission.

Defendant's answer, filed on December 5, 1913, denies all the material allegations in the complaint involving the reasonableness of the rates for manufactured gas charged and collected by it in the city of Monterey, and maintains that the rates so charged and collected are the lowest at which it can profitably sell its commodity to said city and its inhabitants.

Coast Counties Gas and Electric Company was organized March 18, 1912, and took over, among other properties, the property of the California Consolidated Light and Power Company, which then owned a gas plant at Monterey and the distribution systems in Monterey and Pacific Grove.

The California Consolidated Light and Power Company was organized in November, 1911, with a capital stock of \$5,000,000. Its predecessor was the Monterey County Gas and Electric Company which, from 1903 to November, 1911, owned all the capital stock of the Monterey and Pacific Grove Electric Railway; owned the gas plant and system, water plant and system and electric plant and system at Salinas; and gas plant and system in Monterey and Pacific Grove. The authorized capital stock of the Monterey County Gas and Electric Company was \$750,000. Its bonded indebtedness was \$500,000, of which \$150,000 represented the underlying issue of the Monterey County Gas and Electric and \$180,000 the underlying issue of the Salinas Water and Power Company, both of which companies had operated in this field prior to their absorption by the Monterey County Gas and Electric Company.

The reason for the organization of the California Consolidated Light and Power Company and the ownership by it of the properties here in question during the brief period from November, 1911, to March, 1912, is not disclosed. As no securities were issued by this company and nothing done to affect the status of the property during the brief ownership, the reason for its organization is of no moment.

At the time the gas and electric properties of the Monterey County Gas and Electric Company were disposed of to the California Consolidated Light and Power Company, its water properties were transferred to the Salinas Valley Water Company.

The defendant herein, Coast Valleys Gas and Electric Company, was organized March 18, 1912, with a capital stock of

\$5,000,000 and an authorized bonded indebtedness of \$10,000,000. The entire authorized capital stock, consisting of \$2,000,000 preferred and \$3,000,000 common stock, together with 900,000 face value of 40-year 6% bonds, were issued and are now outstanding. The underlying bonds were taken up with the exception of two Monterey County Gas and Electric Company bonds, which have a value of \$1,000 each.

It is testified that in addition to redeeming \$500,000 in underlying bonds, the present owners paid \$400,000 for the stock of the predecessor company and assumed and paid off the floating indebtedness of \$207,000 in addition to expending \$286,137 for additions and betterments to December 31, 1913.

None of the books of the various predecessor companies were offered in evidence nor was any testimony introduced which would indicate either the book value or original cost of the properties or any portion thereof acquired by the defendant in this case, nor whether or not sinking funds for the redemption of the several issues of underlying bonds had been set up by these predecessor companies prior to the actual transfer in each case and no material evidence is in the record tending to establish what the fair or market value of the stocks and bonds of any of the predecessor companies was originally or at any subsequent time. In view of the above statement it will be evident that the mere fact that so much stock and so many bonds were issued by this defendant or even that so much money was expended is of little assistance in attempting to determine a fair value to be placed on a particular portion of the properties so acquired for the purpose of this case.

Defendant presented at the hearing inventory, valuation and rate reports prepared by Ford, Bacon and Davis, Engineers, covering all the existing properties of the Coast Valleys Gas and

Electric Company as of August 31, 1912, with additions and betterments to December 31, 1913. A summary of these reports, in so far as the gas plant and system at Monterey and Pacific Grove are involved, together with a summary of the valuation report prepared by Mr. A. R. Kelley of the Commission's Engineering Department, is given in the following table:

Table I.

	<u>Ford, Bacon & Davis</u>	<u>Estimated Cost to Reproduce New</u>	<u>Estimated Cost to Reproduce New</u>
		<u>A.R.Kelley</u>	
Real Estate prorated to General structures	\$1250.00	\$1,250.00	
Real Estate prorated to Gas Plant	6666.66	6,666.66	
Office Buildings and General Structures (Prorated)	1750.00	1,750.00	
Gas Plant Buildings and Structures	8217.00	(a) 8,706.50	
Holders	2289.00	2,200.00	
Furnaces, Boilers and Accessories	5513.25	5,513.25	
Gas Generators	2383.00	2,383.00	
Purification Apparatus	3991.90	3,961.00	
Accessory Equipment at Works	1329.65	1,221.95	
Boosting and Regulating Apparatus	4469.23	4,469.23	
High Pressure Mains	4537.02	(b) 3,695.37	
Low Pressure Mains	42255.84	25,878.81	
Gas Services	10331.58	6,885.72	
Paving	26352.22	-	
Service Regulators	2017.81	1,899.25	
Gas Meters	7211.36	6,091.90	
General Office Equipment, etc. (Prorated)	882.92	882.92	
Stable and Misc. Equipment (Prorated)	431.10	431.10	
Total Tangible Capital less Overhead Expense	\$131879.54	\$ 83,886.66	
1- Contingencies, Incomplete Inventory, etc.	11037.44	6,300.05	
2- Contractors Profit	12155.14		
3- Engineering and Supervision	10937.72		
4- Interest and Taxes during Construction	17431.05		
5- Injuries and Damage	2340.00		
6- Rights, Capital and Organization and Going Concern	65800.00		
7- Engineering, Supervision, Organization Legal Expenses and Taxes during construction		9,018.68	
8-Interest during Construction		2,976.15	
Total Overhead and Intangible	\$119701.35	\$18,294.88	
Total Estimated Reproduction Cost	\$251580.89	\$102,181.54	
Materials and Supplies	1584.00	1,584.00	
Additions and Betterments			
Gas Generators	5003.00	5,003.00	
Purification Apparatus	2080.00	2,080.00	
Low Pressure Mains	2110.00	2,110.00	
Gas Services	746.00	746.00	
Total additions and Betterments	\$9939.00	\$9,939.00	
Total to December 31, 1913	\$263103.89	\$113,704.54	
(a) Including \$489.50 for an oil tank listed with electrical equipment by Ford, Bacon & Davis.			
(b) Including 3 District Regulators at \$125.00 each, not included in this item by Ford, Bacon & Davis			

It will be noted that the overhead charges estimated by Ford, Bacon and Davis amount to something over 40.8% of the sum of unit costs placed by them on the physical property and that in addition to the overhead allowances shown, intangible items, including "Rights, capital and Organization and Going Concern", etc., are included which brings the total overhead and intangible values claimed to over 90% of the estimated bare physical cost. Not only does the defendant ask that all of these intangible items be allowed in fixing a rate to be charged by it for gas in the city of Monterey, but the Commission is also asked to allow 10% return on the full estimated reproduction cost, including all the overhead and intangible items, large appreciation in real estate values, the estimated cost of paving over mains and services, which expense was never incurred by this defendant or any of its predecessors, and, in addition, a largely increased depreciation annuity to amortize an amount said to represent the accrued deficit in depreciation reserve, from the original organization of the predecessor companies to the present time. The accrued depreciation in the gas plant and system at Monterey and Pacific Grove on August 31, 1912, as shown in a report prepared by Ford, Bacon and Davis is estimated to be \$43,980.61.

It is interesting to note the manner in which a strict reproduction new theory is utterly disregarded by the engineers employed by the company at times and again adhered to tenaciously when that theory will best serve to justify the various estimates and claims of defendant. In increasing the depreciation annuity to compensate past alleged deficits, the engineers have entirely abandoned the reproduction new theory and adopted the historic method which attempts to arrive at the original cost of the plant as it now exists.

Mr. Kelley submitted an estimate of the cost to reproduce the property new and there appears a wide difference in opinion between Mr. Kelley and the engineers for the company as to the cost of certain portions of the plant. In so far as the gas plant and

buildings are concerned, the unit costs used by Mr. Kelley and the company's engineers compare very closely and in several, if not the majority, of the items Mr. Kelley has accepted and used those appearing in the Ford, Bacon and Davis appraisal. The present value placed on the real estate prorated to the gas plant at Monterey, however, being one-third of \$20,000.00, appears from the evidence to be excessive and I am of the opinion that \$15,000.00 would be a very liberal allowance for the whole tract at this time, or \$5,000.00 to be prorated to the gas plant on the company's basis of segregation. The original cost of this property, comprising one entire block with the exception of one lot, was not made clear but was probably not less than \$2,500.00 or more than \$5,000.00.

Paving over mains and services, amounting to \$26,352.22, not including overhead, has been included in the Ford, Bacon and Davis report and very properly omitted by Mr. Kelley. This Commission has heretofore on several occasions indicated its position in regard to this item where it represents no actual expenditure made by the present or a previous owner of a property, and I do not deem it necessary at this time to discuss at length the reasons for not allowing the item in cases such as the present one.

The different unit costs used by the Ford, Bacon and Davis engineers and Mr. Kelley for street mains and services, account largely for the great difference between the two total reproduction costs arrived at, and I am of the opinion that those used by Mr. Kelley are at least liberal for the class and character of the work contemplated in his report. Mr. F. C. Millard, appearing for defendant, testified concerning the value of the gas plant and system supplying Monterey and Pacific Grove, and while the hasty manner in which his investigation of the properties was carried on rendered his report of little value to the Commission in determining the issues of this case, it recalled one point worthy of attention, namely, that some of the street mains were "Converse" pipe and not the standard black pipe used exclusively in the more recent installations. I will

allow \$800.00 over and above the costs found by Mr. Kelley for the difference in price on pipe as noted. The labor costs used by Mr. Kelley, while much lower than those used by the company's engineers, appear from records of actual construction in Monterey and Pacific Grove to be ample even before the addition of overhead charges.

The cost of installing gas meters was a point on which Mr. Kelley differed greatly from the engineers appearing for the company, who maintained that \$2.00 was a reasonable amount to be allowed for this item. Mr. Kelley contended that 50% was ample although he used 75% in arriving at the cost of meters installed. To my mind there can be no question but that the cost used by the company's engineers is excessive and that the figure used by Mr. Kelley will in all probability exceed, without the addition of overhead, the actual cost to the company.

Both Mr. Kelley and the engineers for the company have, through error, included electrical instruments estimated to cost \$78.75, and this item should be deducted from both estimates after being increased for the overhead allowed in each case.

The question of overhead expense was discussed at length by engineers for the company and Mr. Kelley, and, as usual, there appeared a great difference of opinion as to the proper percentages to use in the case of each item and in the aggregate. A comparison of the percentages used is shown in the following table:

Table II.

Tools
and
Misc.

	Real Estate	Buildings, etc.	Gas Equipment	Plant Mains	Street Services	Meters	Tools and Misc.
<u>Ford, Bacon & Davis</u>							
Contingencies	0 %	10 %	# 10 %	10 %	10 %	5 %	5 %
Contractors Profit	0 %	10 %	15 %	15 %	15 %	0 %	0 %
Engineering and Supervision	0 %	7½%	7½%	7½%	7½%	0 %	0 %
Interest & Taxes	10½%	10½%	10½%	10½%	10½%	10½%	10½%
Apparent Total	10½%	38 %	43 %	43 %	43 %	23 %	15½%
Actual Cumulative Total	10½%	43.7½%	50+%	50+%	50+%	24.7+%	16+%
<u>Kelley</u>							
Contingencies	0 %	10 %	# 10 %	10 %	10 %	5 %	5 %
Engineering, Supervision, Organization, Legal Expense							
& Taxes	10 %	10 %	10 %	10 %	10 %	10 %	10 %
Interest	3 %	3 %	3 %	3 %	3 %	3 %	3 %
Apparent Total	13 %	23 %	23 %	23 %	23 %	18 %	18 %
Actual Cumulative Total	13-1/3%	24.6+%	24.6+%	24.6+%	24.6+%	19-%	19-%

No contingencies on boilers and 5% on boosting and regulating apparatus.

I have hereinbefore referred to the fact that the general effect of the overhead percentages used by Ford, Bacon and Davis is to increase the estimated bare costs of all the gas properties in Monterey and Pacific Grove, including real estate, over 40.8%, while those used by Mr. Kelley will increase the estimated costs, less overhead, over 21.8%. While on the whole Mr. Kelley's overhead percentages, with the exception of that for contingencies, may be considered as being at least fair under the circumstances of this particular case, including as it does the item of "organization", it is my opinion, in view of the unit costs used, that the allowance for contingencies is entirely too high. A percentage not to exceed 5% of the estimated bare physical costs, less real estate, meters, general office equipment, tools and miscellaneous, would have been amply liberal and would, in all probability, considerably exceed the actual original cost. Mr. Kelley has allowed about 13-1/3% overhead

on a greatly appreciated value of the real estate owned by the company and while such an allowance may, in some measure, be justified on a strict reproduction theory, I do not believe it should be allowed as an element of value in this case.

Intangible values claimed by the defendant company, in so far as the gas properties in Monterey and Pacific Grove are concerned, are estimated by the engineers for the company at \$65,800.00 under the terms "Rights, Capital and Organization" and "Going Value". Using the same ratio as shown in the report prepared by Ford, Bacon and Davis for the purpose of segregating the item "Other than Physical Property \$65,800.00" into its principal component parts, it is found that the values claimed are:

Rights, capital and organization...\$36,370.69
Going value..... 29,429.31.

Organization expense has been provided for by Mr. Kelley in his overhead allowance.

The item "Capital" is presumably working capital, and can be amply provided for by allowing two months' operating expense at \$3,586.00 on the basis of the company's statement for the year 1913, in addition to "Materials and Supplies" \$1,584, as reported. If interest for one-half of one year is allowed on construction, I can see no reason for allowing any working capital for that purpose other than materials and supplies ordinarily kept on hand.

There remains then the item of "Rights", which may be assumed to cover the cost of franchises. The evidence does not disclose what was paid for any franchise under which this company operates. Quite probably little or nothing was expended for such purpose.

The question of what constitutes "Going Value" is largely a matter of opinion and the only evidence aside from the highly theoretical assumption by the engineers for the defendant appears to be that no depreciation reserve has been set up to provide for the ultimate replacement of each element of physical property at

the end of its useful life.

On a strict reproduction theory it is difficult to understand how the question of past deficits can be considered or why, if such deficits actually occurred and if, contrary to the usual practice with small companies such as the predecessors of defendant, they were not occasioned by the investment of surplus earnings in plant, the present owners should be re-imburzed for losses borne by former owners of the property. At any event, it is not clear to me how early losses can add to the present value of this or any other plant. The whole trouble in this and many other cases before the Commission, is that engineers representing utilities will not be consistent. Because a property has lost money certainly does not make it more valuable, although it of course makes it more costly, and the only theory upon which losses could be considered at all in rate fixing is on the theory that cost should be the basis upon which rates should be determined; and the justification for the cost basis for fixing rates is found in the fact that when any one incurs an expense for another, he has a right to expect to be reimbursed. In short, considerations of equity are the only ones that should appeal to a governmental agency in endeavoring to determine a basis upon which an earning shall be allowed. This Commission should always be ready to give consideration to every equitable claim of a utility, whether it could be forced to do so under a strict interpretation of the law or not. And on the other hand, it certainly is a peculiar attitude to be assumed by any one who desires to give or receive fair treatment, to say that considerations of equity must be controlling upon this Commission in fixing rates when such equity is in favor of the utility, but that no account should be taken nor consideration given to equity when such a procedure would tend in anywise to decrease the amount upon which an earning is desired to be made.

It should be understood by utilities and the public alike and recognized by commissions and courts that when you take

away from an enterprise the right to determine for whom and for what price it will conduct its business, you have eliminated the possibility of applying the same rules of value as obtain in an unregulated enterprise. Value, as commercially understood, is something which cannot be determined until after the earning power is determined and the fact upon which commissions are asked to find, when asked to find value as commercially understood, is a fact which finally has no existence until after the authority of the State has been exercised in determining the proper conditions upon which the business shall be conducted, the proper rates, and so the earning power. The sooner it is understood by the utilities that under modern conditions they are literally at the mercy of the State, the sooner they will realize that only equitable considerations are the ones that will finally have weight, and until commissions and courts representing the sovereignty of the State realize that always they should make the "ought" determine the "must" such governmental agencies have not become equal to their task. I do not mean to suggest that any agency should be subject to the caprice of governmental authority, but I do insist that it should be recognized as a plain fact by the utilities that they are subject to regulation and that the character of such regulation and its extent will be largely determined by the attitude of the utilities themselves.

It is inconceivable to me how any engineer or how any utility could expect public officials of any intelligence whatsoever to accept exaggerated so-called "values" such as the one here presented, wherein every principle of consistency is violated and every known method of loading resorted to in order to increase the amount upon which an earning shall be expected. If as widely divergent results can be reached by competent engineers dealing with the same subject matter, as have here been reached, then the most that can be said is that the value of engineering aid to rate fixing is much over-estimated, or that one or the other engineers, where such widely different results are obtained, is mentally dishonest. I do not mean by this a reflection upon Mr. Woodbridge, the engineer who made the physical appraisal in this case, but my reflection is upon the method and those responsible for it. What the

Commission would like to know is the sum of money upon which it ought to allow an earning in any case, and it will serve no good purpose and will be merely a waste of time for utilities to present an exaggerated statement with the hope that this Commission may follow a practice, too prevalent in the past, of splitting the difference between such estimate and some other which is perhaps lower. This Commission, however, should have no desire whatsoever in the matter, either that the basis for rate fixing be large or small. It should merely desire the facts, and when theories must be applied to facts, only those theories which give to the utility and the patrons what ought to be accorded should be followed.

The profit of 2½% which defendant asks, introduces another intangible which if capitalized at 8% would amount to something in excess of \$82,000.00 and this brings out rather forcibly the fact that any return, on an investment in or value of a property, over and above the "cost of money" is an allowance which to some extent at least provides for those necessary expenditures incidental to the construction of a plant and the creation of a going concern which would not appear in any subsequent appraisal of the physical properties. The natural or apparent hazard of the business is usually reflected in the cost of money itself which fact is at once made apparent by a comparison between that cost where a material hazard may be assumed to exist as in the present case where it is said to be 6½% and the cost in cases of minimum hazard as with government bonds. The hazard, actual or assumed, incidental to the creation and transaction of any business, from the investor's point of view, and which view eventually regulates the price or cost of money, may be the relative security of earning power as compared with some other investment or may depend primarily upon the relative security of the principal. In any event the immediate effect of the element of hazard is apparent in the cost of money. The security of earning power is largely safeguarded by the measure of protection from competition which the State, through this Com-

mission, can give. The security of the principal is obviously dependent at any time upon the relation which is maintained between value of the properties and the total amount of the securities issued thereupon.

Engineers for defendant contend that the company should be allowed a return of 10% on the "invested capital" over and above operating expenses (including ordinary maintenance) and an allowance for depreciation. This 10% is made up by figuring the average cost of money at 6½% and adding to this percentage 2½% for "profit" and 1% for "obsolescence of equipment". The term "invested capital", as used by the engineers, appears, in so far as the physical plant is concerned, to have no reference to original investment as no evidence was introduced bearing on that subject, but in estimating the proper amount to be hereafter allowed for depreciation the original investment theory has evidently been adopted. Notwithstanding the fact that defendant admits that it has in its possession the books and records of the predecessor companies since about the time the gas plant and system was constructed, the company's engineers and officials chose to estimate "invested capital" on the basis of what a duplicate plant would cost new, including greatly appreciated land values and alleged intangible values, amounting, as I have hereinbefore mentioned, to \$65,800.00 or almost 50% of the full estimated cost to reproduce the physical plant. To my mind it is wholly illogical, after ignoring actual historical costs to attempt to arrive at invested capital upon a hypothetical basis not only in regard to the unit costs themselves but in the actual process by which the property was created. Having once discarded the original cost or investment basis, and having laid claim to all appreciated values, it would appear that the only alternative left would be to estimate present value upon the depreciated reproduction theory unless we are to depend entirely upon the amount of stocks and bonds outstanding, which latter basis would be obviously unfair under the circumstances of this particular case.

The ratio between the estimated cost to reproduce new the gas properties of defendant in Monterey and Pacific Grove, exclusive of real estate, and the depreciated reproduction cost or so-called "present value" of those properties , as shown in the valuation report prepared for the defendant company by Ford, Bacon and Davis, is 75.16% as of August 31, 1912. Upon the same theory, assuming that this ratio of 75.16% is correct and that it remained the same on December 31, 1913, the present depreciated value of the property, as of that date, upon the basis of Mr. Kelley's estimate of the cost to reproduce the plant new corrected to allow for the tangible and intangible additions already referred to and disregarding for the moment the corresponding deductions, would be \$96,237.97.

The operating expenses for the year 1913, applicable to the gas business in Monterey and Pacific Grove, as set forth in statements submitted by defendant, are as follows:

Table III.

Operating Expenses Year Ending December 31, 1913.

Production

Superintendence.....	\$ 678.00
Steam Plant, Labor and Supplies.....	145.00
Gas Generation Labor and Supplies.....	3,193.00
Fuel for Steam.....	172.00
Oil or Coal for Gas.....	5,559.00
Misc. Labor and Supplies.....	263.00
Repairs to Structures and Holders.....	257.00
Repairs to Furnaces, Boilers and Accessories.....	284.00
Repairs to Gas Plant Equipment.....	1,181.00
Repairs to Misc. Production Equipment.	<u>99.00</u>

Total Production Expense	\$11,831
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Transmission

Repairs to Mains and Structures.....	\$ 3.00
Repairs to Transmission Equipment.....	<u>9.00</u>

Total Transmission Expense	\$ 12.
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Brought Forward

\$11,843

Distribution

Superintendence.....	\$ 108.
Setting and Removing Meters and Regulators.....	1,022.
Inspecting and Patrolling.....	2.
Gas Meter Operations.....	7.
Commercial Lamps, Labor & Supplies..	49.
Inspection and Repairs to Con- sumer's Installations.....	71.
Municipal Street Lamps, Labor and Supplies.....	5.
General Labor Supplies.....	35.
Repairs to Mains and Services.....	581.
Repairs to Meters and Regulators....	648.
Repairs to Municipal Street Lighting System.....	2.
Repairs to Commercial Arc Lamps....	31.
Repairs to Misc. Distribution Equipment.....	<u>192.</u>
Total Distribution Expense	2,753.

General and Miscellaneous

New Business.....	\$ 507.
Commercial Dept. Salaries and Expenses.....	1,365.
Commercial Dept. Indexing.....	83.
Commercial Dept. Collections.....	76.
Misc. Commercial Expense.....	13.
Salaries of General Officers.....	954.
Salaries of General Office Clerks....	211.
Misc. General Office Supplies and Expense.....	1,508.
Law Expenses - General.....	173.
Railroad Commission Expense.....	200.
Injuries and Damages.....	29.
Other General Expense.....	35.
Insurance.....	323.
Repairs to General Equipment.....	350.
Undistributed Adjustment (Credit)	<u>-24.</u>
Total General and Miscellaneous	5,803.

Taxes

Total operating expenses and Taxes	<u>\$1,117.</u>
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The points most worthy of note in regard to the operating expenses as reported are the two items "Repairs to Gas Plant Equipment \$1181.00" and "Setting and Removing Meters and Regulators \$1022.00". The first of these items amounts to 8.6 times the corresponding expense at defendant's gas plant at Salinas, and may be considered abnormal, due possibly to some extraordinary repairs.

during the year. An ample allowance for this item of expense should not exceed \$200.00. The second item, "Setting and Removing Meters and Regulators", equals about 3-1/4 times the corresponding expense per consumer at Salinas, and while it may in this particular instance be considered as a normal expense by reason of the great number of transient summer consumers at Monterey and Pacific Grove, the regular patrons of defendant should not be required to bear the additional burden thus created but it should be met by a suitable service charge to be collected from all new consumers unwilling to sign a contract for one year. The item "Oil or Coal for Gas \$5,559." represents the cost of 7334.25 barrels of fuel oil used in the manufacture of gas at the Monterey plant, to which reference will be made hereafter.

The gross revenue received by defendant from the sale of gas in Monterey, Pacific Grove and vicinity during the year 1913 is reported to be as follows:

Table IV.

Gas Sales Year 1913.

	Monterey Monterey	Monterey Rural	Pacific Grove	Total
Municipal Street Power and Lighting	\$ 70.55		\$ 44.70	\$ 115.05
Commercial Heat, Power and Lighting-Flat Rate	39.00		352.85	391.85
Commercial Heat, Power and Lighting-Metered	13,272.00	938.39	12,552.05	26,762.44
Prepaid Gas			203.00	203.00
 Total Sales	\$13,381.35	\$938.39	\$13,152.60	\$27,472.34

The actual quantity of gas manufactured during 1913 at the Monterey plant is reported by defendant as 33,939,200 cubic feet and the reported sales 19,675,600 cubic feet, showing an apparent loss of about 42%. The amount of gas manufactured was taken from holder measurements and checked by the amount of fuel oil used. The amount of gas sold, as reported by defendant, is in all probability a record of questionable accuracy covering the monthly meter readings during the year and apparently the amount of gas consumed by some fifty flat

rate consumers has been entirely ignored. At the hearing witnesses for defendant testified that there was evidently an error in the loss as reported and that 10% would be a reasonable loss under the conditions existing in Monterey and Pacific Grove. With this latter statement I am inclined to agree, and I do not believe that a greater loss than 10% or 15% as an absolute maximum should be charged against the consumers of gas in Monterey and Pacific Grove; however, it must be pointed out that even if we grant that the losses in this plant do not as a matter of fact exceed from 10% to 15%, and that the gas manufactured was less in proportion, an inefficiency in operation and management even more startling would be evident. The point I mean to bring out is, that obviously the quantity of fuel used during 1913 is known to be substantially correct, as there can be no possible justification for a material error in this item as reported; then if the sales were as reported and the losses were, say 10%, the quantity manufactured would be about 21,862,000 cubic feet, indicating a fuel consumption of over 14 gallons of fuel oil per thousand cubic feet of gas made. According to the admissions of defendant's own witnesses the operating efficiency of the Monterey plant would, with the fuel consumption stated, be less than 68% of normal.

In view of the circumstances above related, it is evident that the reported amount of gas sold is entirely unreliable and that the only basis to use for determining what the sales actually were, with a reasonable degree of certainty, and in fairness to defendant and its patrons, is to use the amount of fuel oil consumed during 1913 and assume a fair plant efficiency and a liberal allowance for loss in transmission and distribution. By this method, assuming a manufacturing efficiency of 10 gallons of fuel oil per thousand cubic feet of gas made and a loss of 15%, the sales would have amounted to about 26,183,300 cubic feet during 1913.

It will be clear that the rate fixed in this case should be ample to enable the defendant to install a station meter at the Monterey plant and provide suitable facilities for determining (a) the

quality of the gas manufactured, (b) the accuracy of consumers' meters, (c) the pressure maintained at all times at the plant centers of distribution and (d) when necessary, the pressure maintained at any point on the distribution system or upon any consumer's premises.

I, therefore, recommend that defendant prepare and submit to this Commission within twenty (20) days from the date hereof, a detailed estimate of the cost of providing the additional equipment and facilities above referred to, together with a statement of the manner in which it proposes to carry out the intent of these recommendations.

Considering all the facts and circumstances connected with this case, and after carefully weighing the evidence submitted in connection therewith, I find as a fact that the present rates charged and collected by defendant for gas manufactured, distributed and sold by it in the city of Monterey and vicinity are unjust and unreasonable; and I further find that the rates and charges set forth in Table V are just and reasonable and that said rates will, in addition to providing for all necessary operating expenses and an adequate depreciation reserve, allow an ample return on the value of defendant's property now used and useful in connection with the manufacture of gas at the Monterey plant and its distribution and sale to the inhabitants of the said city of Monterey and vicinity, including the fair value of the additional equipment and facilities which I have hereinbefore recommended that defendant provide for the improvement of service.

Table V.

Rate for Manufactured Oil Gas Having an Average Heating Value of not less than 600 B.T.U. per cu.ft.

Applicable to all Classes of Consumers

First 5,000 cu.ft. per month per meter \$1.30 per M cu.ft.
Over 5,000 cu.ft. per month per meter 1.00 per M cu.ft.

Minimum monthly charge per meter 60%

A service charge of \$1.00 will be required in all cases where an applicant for service declines to sign a contract for service for one year but will be refunded if the applicant remains a customer of the company continuously for twelve months at one location.

I recommend the following form of order:

O R D E R .

CITY OF MONTEREY, a municipal corporation, having heretofore filed with this Commission its complaint alleging that the rates now charged and collected by Coast Valleys Gas and Electric Company for gas manufactured, distributed and sold by it in the city of Monterey are excessive and unreasonable, and a public hearing having been held, and the Commission being fully advised in the premises, and basing its conclusions on findings of fact contained in the opinion which precedes this order,

IT IS HEREBY ORDERED that Coast Valleys Gas and Electric Company, a corporation, publish and file with this Commission within twenty (20) days from the date hereof, and thereafter charge and collect for gas sold and service supplied by it in the city of Monterey and vicinity, the following rates and charges which are hereby found to be just and reasonable:

Rate for Manufactured Oil Gas having an Average Heating

Value of not less than 600 B.T.U. per Cu.Ft.

Applicable to all Classes of Consumers

First 5000 cu.ft. per month through one meter	\$1.30 per M cu.ft.
Over 5000 cu.ft. per month through one meter	1.00 per M cu.ft.

Minimum Charge 60¢ per month per meter.

A service charge of \$1.00 will be required in all cases where an applicant for service declines to sign a contract for service for one year but will be refunded if the applicant remains a customer of the company continuously for twelve months at one location.

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 30th day of June 1914.

John M. Shallenbach
H. D. Cleveland
G. Gordon
Max Thelen

Commissioners.