

Decision No. ✓

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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KERN COUNTY MERCHANTS ASSOCIATION, }

Complainant, }

vs. }

CALIFORNIA NATURAL GAS COMPANY,
a corporation, }

Defendant. }

Case No. 357.

Decision No. 1684

ESHELMAN, Commissioner.

OPINION ON PETITION FOR
MODIFICATION OF ORDER.

On June 11, 1914, this Commission denied the application of the Bakersfield Gas and Electric Company for a rehearing in the proceeding connected with the one here under consideration. In the same opinion it was the intention to deny the application of the California Natural Gas Company, and it was not until it was urged that this Commission had not denied the application of that company and on investigation of the opinion it was found that San Joaquin Light and Power Corporation was used in conjunction with the Bakersfield Gas and Electric Company, instead of California Natural Gas Company, that I learned that in rendering the decision this inadvertent substitution had been made. Under the Public Utilities Act, however, failure to deny an application for rehearing within a certain time after filing constitutes a denial of the application.

However, inasmuch as the record is in the condition stated and the California Natural Gas Company still insists that it should have a rehearing, it may be well to comment upon its contention.

Petitioner relies upon the result of certain arbitrary computations to justify its contention that the rate of 12.75¢ per

M. cubic feet allowed by the Commission for natural gas distributed by the Bakersfield Gas and Electric Company to domestic, commercial and industrial consumers in the City of Bakersfield and the rate of 7¢ per M. cubic feet for natural gas supplied to the steam plant of the San Joaquin Light and Power Corporation or other large consumers supplied from the high pressure trunk lines of the Bakersfield company, will only yield a return of 6.08% on the value of its plant devoted to such service. In this connection it is interesting to note that petitioner now contends that the proper basis for establishing rates for natural gas in this case is that adopted by Mr. Hoar, the Commission's Gas and Electric^{al}/Engineer, in his preliminary report and explained by him at some length at the hearing on April 9, 1914, at which time petitioner interposed serious objection to this same basis. Briefly, Mr. Hoar's theory was that all gas supplied through petitioner's high pressure transmission lines should, irrespective of the ultimate use of the gas, bear an equal proportion of all the costs connected with its production, transmission and delivery. With this full cost theory the Commission is inclined to agree and would in all probability have adopted it in this case if petitioner had not contended so insistently that it should not be deprived of its fuel gas sales to the San Joaquin Company's steam plant. Petitioner's theory at the time of the hearing was that it was justified in making a much lower rate for fuel gas than for gas supplied at wholesale for general distribution purposes owing to the fact that fuel gas must be sold at a price which would permit its use in competition with fuel oil from the adjacent oil fields, and that only certain costs should be prorated to such fuel gas because its use would be subject at all times to the demands of other consumers and no additional pipe line capacity or operating expense would be required. Petitioner's position in regard to this matter is clearly outlined in the following extract from the Transcript (Tr. pp 393-395):

"COMMISSIONER ESHLEMAN: I would like to state that I consider that one of the very important questions in this case. Of course, it is well established

that you can't run a part of your business at an actual loss even under competition. The Supreme Court has determined that in many cases. Now, as a matter of fact, in computing the actual out-of-pocket cost of getting this gas to the steam plant, if in doing that you find that you are not getting as much as it cost you, you ought to quit it or raise the rate, don't you think so?

MR. SUTRO: Yes, except as the industrial gas business has always been sold in competition with fuel.

COMMISSIONER ESHLEMAN: And you sell it for what you can get.

MR. SUTRO: You sell it for what you can get and you don't charge to that business the elements that you charge to the business on which you expect to make a profit. It has been said that the domestic consumer pays the freight for that sort of business, but he really does not because your pipe line is in and you are going to serve him anyhow, and for what industrial gas you can handle you are handling that much more on the volume and make that much more in the way of a gross profit.

COMMISSIONER ESHLEMAN: That is one side of it, but when you compute the actual costs -- that is what I mean. Of course, some of these costs have to be located and are the result of segregations, and as to their correctness there may be some doubt, but suppose now you had to pay 5 cents for your gas and you were selling it at 4; you know you could not do that, don't you?

MR. SUTRO: Yes, you know you could not do it because you have a fixed expenditure there chargeable to that particular business.

COMMISSIONER ESHLEMAN: Yes. Now, if the actual additional cost which is required to be -- expenditure which is required to be made by this company that would not be required to be made if you didn't deliver this gas to the steam plant, added to the 5 cents, brought a result which was equal to the amount you get for it, you had just as well go out of business, and if it is more than you get for it you ought to go out of business, isn't that true?

MR. SUTRO: Absolutely, but that, Mr. Commissioner, is not the fact, unless you charge the industrial gas business with its proportion of the overhead expense and its proportion of the general operating expense. The only expense directly chargeable, as I understand it, to the industrial gas business would be the cost of the gas at the well and the taxes on the revenue derived from that business. The remaining investment is there and the remaining expenses are there and will go on just the same."

On Petitioner's "excess cost" theory a modified version of which the Commission adopted under the circumstances of this particular case it is obvious that no additional expense or investment

would be required to deliver fuel gas to Bakersfield for use at the steam plant of the San Joaquin Light and Power Corporation, consequently the segregation of investment and operating expense would be as shown under basis No. 2 in Tables XI and XII of the Commission's decision in this case. In Table XI we accordingly find that the investment is \$91,434.85 and the depreciation annuity \$6,078.65. Now, if we continue to follow the theory which petitioner contended for at the hearing of this case the operating expenses, as shown in Table XII, excepting an increase for additional gas purchased, will not be increased over those applicable to Bakersfield distribution service alone in the event that fuel gas is used at the San Joaquin Company's steam plant and we then have the following condition:

Table I.

Cost of Service.

California Natural Gas Company to Bakersfield.

Investment		\$91,434.85
Interest at 8%	\$7,314.79	
Depreciation	<u>6,078.65</u>	
Total Fixed Costs		13,393.44
Cost of Gas Purchased	19,787.35	
Expense of Operation (Prorated)	3,961.53	
Taxes	<u>1,790.93</u>	
Total Operation Cost		<u>25,539.81</u>
Total Cost of Service		\$38,933.25

Table II.

Estimated Revenue from Gas Sales during 1914.

236,235,232 cubic feet at 12.75% per M. cu. ft.	\$30,119.99
166,068,528 cubic feet at 7.00% per M. cu. ft.	<u>11,624.80</u>
Total Revenue	\$41,744.79

From the above tables it will be evident that the revenue, after deducting \$129.33 excess taxes, is \$2,682.21 more than suf-

efficient to take care of all fixed and operating costs and corresponds to a return of 2.9% upon the investment over and above the 8% already allowed, or a total return of 10.9%. Upon the same theory, had the Commission been willing to accept it without modification, assuming 7¢ as the rate for fuel gas, the price of gas for distribution purposes would have been fixed at 11.6¢ per M. cubic feet instead of 12.75¢ because at the former rate the total revenue would have been equal to the cost of service. However, the Commission was not satisfied that petitioner's theory of excess cost was entirely sound and for this reason the additional revenue amounting to \$2,682.21 was allowed to take care of any additional expense chargeable only to the production and transmission of boiler fuel gas.

In regard to the investment amounting to \$91,434.85 prorated to Bakersfield service, I desire to call particular attention to the fact that petitioner has already accepted this same basis in connection with Case No. 562 where the same segregation was used to obtain the cost of service at Taft.

I further desire to point out the fact that upon petitioner's own showing it is earning a return in excess of 20% on the investment which has not been prorated to the Bakersfield service and that even if no segregation of investment had been made in this case and all of its rates had been reduced to 7¢ per M. cubic feet of gas sold, including sales in the Bakersfield district, petitioner would still be earning a return, based on sales during 1913, of at least 8% on its entire investment after proper deduction for all costs of operation as claimed including petitioner's own allowance for depreciation.

Nothing has been presented that has changed my previous view that this application should be denied. The rates prescribed should go into effect on the date required.

I submit the following order:

O R D E R .

CALIFORNIA NATURAL GAS COMPANY having filed its application for rehearing in the above entitled proceeding, and the matter being carefully considered,

IT IS HEREBY ORDERED that the application be and the same is denied, and the rates established shall be effective concurrently with the rates heretofore put into effect by the previous order of this Commission for the Bakersfield Gas and Electric Company.

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 24th day of July, 1914.

John M. Eschleman
Max J. Thelen
Edwin D. Edgerton
Commissioners.