BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

Decision No. 1912

ORIGINAL

CITY OF COALINGA, Complainant, vs. COALINGA GAS AND POWER COMPANY, Defendant.	)	Case No.624.

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Henry S. Richmond, City Attorney, for City of Coalinga.
George W. Satchell for Coalinga Gas and Power Company.

THELEN, Commissioner.

O P I N I O N.

The complaint in this case was filed by the City of Coalinga by direction of its Board of Trustees, and asks that the rates for gas supplied within the city limits by the defendant be reduced.

The complaint alleges, in part, that the defendant has established and is now collecting the following rates for gas supplied within the City of Coalinga: $2.00 per thousand cubic feet for consumers using less than 5,000 cubic feet per month, and $1.75 per thousand cubic feet for consumers using more than 5,000 cubic feet per month, each of these rates being subject to a discount of 25 cents per thousand cubic feet if paid before the 15th day of the ensuing month. These rates are subject to a minimum charge of $1.00 per month. The complaint alleges that these rates are excessive and unreasonable, and asks that the Railroad Commission establish a rate of $1.00 per thousand cubic feet, with a minimum rate of $1.00 per month.

The answer denies that defendant's rates are excessive or unreasonable; alleges that the population of Coalinga is decreasing and that defendant's revenues are falling off; alleges that the introduction of natural gas on April 20, 1914, has materially reduced defendant's revenues and that a decrease of gas rates under existing conditions would make it practically impossible for defendant to continue its business and to meet its liabilities. Defendant asks that the complaint be dismissed.

A public hearing in this case was held in Coalinga on September 1, 1914. The case was submitted on that day with the understanding that the facts shown in defendant's records, which were placed at the disposal of the Commission, might be considered in evidence in this case.

Coalinga Gas and Power Company was incorporated under the laws of California on April 26, 1909. It is engaged in the supply of gas for heating purposes, and to a slight extent, for illuminating purposes in the City of Coalinga, Fresno County, California. The Company supplied artificial gas to its patrons until April 20, 1914, since which date, with slight interruptions, defendant has been supplying its customers entirely with natural gas secured from a natural gas well located in the oil fields near Coalinga. Defendant's generating plant contains two gas generators with the necessary accessories, and one 30,000 cubic foot gas holder. Under normal conditions, only one generator set is used, the other being held in reserve for use while the first is being repaired. The distribution system consists of mains in the town of Coalinga, ranging from a diameter of 2 inches to 6 inches.

This case presents special features which distinguish it from any other case which this Commission has as yet been called upon to decide. The most important of these features is the fact that the population of Coalinga has been materially reduced in the last two years, and that the number of defendant's customers has diminished and the amount of gas consumed by its remaining customers has also decreased. While it may well be that the setback which the City of Coalinga has received is temporary, there is no prospect of an immediate resumption of its former more flourishing condition, and the decision in this case must be rendered on the assumption that defendant will not be able to increase its business, but that it will probably suffer further losses in the immediate future.

Defendant has an authorized issue of 50,000 shares of capital stock, of the par value of $1.00 each. Although defendant's annual report for the year ending December 31, 1913, states that 46,738 2/3 shares are outstanding, an examination of defendant's records fails to reveal any amount in excess of 46,438 1/3 shares. The stock has been sold at prices varying from 34 cents to $1.00 per share, as appears from the following table:

Table No. I.

Proceeds from Capital Stock.

	Shares	Cash Realized
Issued to Directors @ 34 cents..................	27,500	$ 9,300.00
" " " @ par.......................	500	500.00
" " 2 Directors for franchise............	2,000	500.00
" " Sundry subscribers @ 75 cents........	13,328.35	9,996.25
" " " " @ par..............	3,000	3,000.00
" " Manager for part of salary...........	110	110.00
Total......	46,438.35	$23,406.25

The estimate of cash received for defendant's franchise is based on testimony to the effect that this stock was issued to two directors in payment for legal advice, advertising and cost of franchise amounting to less than $500.00.

Assuming that 10 per cent interest is allowed on moneys which were paid in for capital stock from time to time and that deductions are made for the dividend of $2336.91 which was paid in 1913 and the dividend of $1402.15 which was paid in 1914, the stock would represent a value of $33,767.34. The two dividends referred to are the only dividends which have ever been paid. All other surplus earnings have been reinvested in the property.

The following table shows the moneys actually invested in capital account, as shown by the books of the defendant, between September 1, 1909 and the present time:

TABLE NO. II.

CAPITAL ACCOUNT OF THE COALINGA GAS AND POWER COMPANY BY YEARS FROM 1909 TO AUGUST 31, 1914.

Item No.	Item Description	Fixed Capital as of Dec. 31, 1909.	Additions 1910	Fixed Capital as of Dec. 31, 1910.	Additions 1911	Fixed Capital as of Dec. 31, 1911.	Additions 1912	Fixed Capital as of Dec. 31, 1912.	Additions 1913	Fixed Capital as of Dec. 31, 1913.	Additions 1914	Fixed Capital as of Aug. 31, 1914.	
C-5	Real Estate Production	1,250.00		1,250.00		1,250.00		1,250.00		1,250.00		1,250.00	
C-7	Gas Plant Buildings & Gen.St.	2,207.91		2,207.91		2,207.91		2,207.91		2,207.91	172.53	2,380.44	$750 of land value is considered operative
C-8	Holders	4,620.74		4,620.74		4,620.74		4,620.74		4,620.74		4,620.74	
C-9	Furnaces, Boilers	1,238.32		1,238.32	88.16	1,326.48		1,326.48	226.73	1,553.21		1,553.21	
C-10	Gas Generators	5,750.67		5,750.67		5,750.67	3,116.67	8,867.34		8,867.34		8,867.34	
C-11	Purifying Apparatus	105.39	95.73	201.12		201.12		201.12		201.12		201.12	
C-12	Steam Engines	1,525.62	700.47	2,226.09		2,226.09		2,226.09		2,226.09		2,226.09	
C-13	Gas Engines				342.46	342.46		342.46		342.46		342.96	
C-14	Misc.Gen.Plant Equipment	1,118.95	148.00	1,266.95	53.57	1,320.52		1,320.52	23.64	1,344.16		1,344.16	
C-16	Accessory Equipment												
C-17	Misc.Production Equip.	2,000.00	430.33	2,430.33	244.50	2,674.83		2,674.83		2,674.83		2,674.83	This item includes $2000 engineering & supervision
	Total Production Capital	18,567.60	1,374.53	19,942.13	728.69	20,670.82	3,116.67	23,787.49	250.37	24,037.86	172.53	24,210.39	This does not include real estate.
C-22	Distribution Mains	8,408.67	113.79	8,522.46	1,651.33	10,173.79	518.62	10,692.41	82.45	10,774.86	11.50	10,786.36	
C-23	" Services	1,474.70	377.50	1,852.20	.50	1,852.70	3.00	1,855.70	14.67	1,870.37	6.43	1,876.80	
C-24	" Meters	1,472.61	481.73		777.84		355.57		165.27				
	Deduct replaced meters		100.00	1,854.34	100.00	2,532.18	100.00	2,787.75	100.00	2,853.02	90.00	2,853.02	NOTE; Meters to the value of $490 have been lost, broken or stolen.
	Total Distribution Capital	11,355.98	873.02	12,229.00	2,329.67	14,558.67	777.19	15,335.86	162.39	15,498.25	72.07	15,426.18	
C-31	General office equipment	318.00	250.00	568.00		568.00		568.00	277.07	845.07		845.07	
	Residence at plant	834.20		834.20		834.20		834.20		834.20		834.20	This house is "non-operative", being rented.
	Franchise estimated	500.00		500.00		500.00		500.00		500.00		500.00	This value covers approximate cost of franchise and legal advice.
	Organization	161.00		161.00		161.00		161.00		161.00		161.00	Incurred in organization but now written off by company.
	Material & supplies	750.00		750.00		750.00		750.00		750.00		750.00	Approximate average value of appliance & supplies kept on hand.
	Tools	150.00		150.00		150.00		150.00		150.00		150.00	Value of tools kept on hand. Total cost of tools for 5 years, $96.02.
	Working Capital	1,400.00		1,400.00		1,400.00		1,400.00		1,400.00		1,400.00	Approximate average working capital.
	Total General Capital	4,113.20	250.00	4,363.20		4,363.20		4,363.20	277.07	4,640.27		4,640.27	
	TOTAL CAPITAL	35,286.78	2,497.55	37,784.33	3,058.36	40,842.69	3,893.86	44,236.55	689.83	45,426.38	100.46	45,526.84	

By subtracting from the foregoing total of $45,425.62 as of December 31, 1913, estimated accrued depreciation amounting to $3,722.04, a total of $41,703.58 is secured as representing the estimated depreciated reproduction value of that portion of the property which was used and useful in the public service. A promissory note of $4,500 is outstanding.

The following table shows in summary form the cost of gas sold by Coalinga Gas and Power Company during 1913:

Table No. III.

Cost of Gas Sold by Coalinga Gas and Power Company during 1913.

	Fixed Charges	Operating Expense	Taxes	Total	per 1000' Accounted for
Production	$ 3,408.62	$ 8,387.91	$594.21	$12,390.74	$ 1.021
Distribution	1,612.33	216.30	104.50	1,933.13	.160
Service	830.54	3,933.13	239.05	5,002.72	.412
	$ 5,851.49	$12,537.34	$ 937.76	$19,326.59	$ 1.593

In the foregoing table, interest on the investment is allowed at the rate of 10 per cent per annum, 1 per cent of the net revenue is allowed for Federal tax and 4.6 per cent of the gross revenue is allowed to cover State taxes. Depreciation is computed on the sinking fund basis at 6 per cent. The depreciation fund has been invested in the plant, and consequently is drawing interest at the rate of 10 per cent instead of 6 per cent. The higher rate of depreciation here used is allowed to amortize the capital owing to the decrease in business resulting from the decrease of Coalinga's population.

The following table shows, in summary form, an estimate of the cost of service for the year 1914, based on the assumption that artificial gas would be supplied during the entire year and ? - that the amount of gas decreases in the same ratio in which it decreased during the first months of 1914, during which time artificial gas was still being supplied by defendant:

Table No. IV.

Cost of Service for Artificial Gas for 1914.

	Demand	Output	Service	Total
Production				
Interest, Depreciation and Maintenance	$ 3,392.71			$ 3,392.71
Fuel Oil		$2,880.00		2,880.00
Operating Labor and Expense		4,260.00		4,260.00
Taxes	171.57	361.50		533.07
Total production	$ 3,564.28	$7,500.50		$11,065.78
Distribution				
Interest, Depreciation and Maintenance	$ 1,562.48		$ 773.85	$ 2,336.33
Operating Expenses		324.00	$3,069.00	3,393.00
Taxes	86.26	17.88	191.08	295.22
Total distribition	$ 1,648.94	$ 341.88	$4,033.93	$ 6,024.55
Total Cost	$ 5,213.02	$7,843.38	$4,033.93	$17,090.33

The average cost per 1000 cubic feet sold during 1914 on the basis of a total cost of $17,090.33 is $1.81 per 1000 cubic feet sold.

Under the existing rates, defendant received an average return on each 1000 cubic feet sold during 1913, amounting to $1.645, this sum being secured by dividing the total operating revenue of $20,092.26 by the total amount of gas sold, which amounted to 12,201,400 cubic feet.

It thus appears that the actual cost of gas to defendant in the year 1913, amounting to $1.593 per 1000 cubic feet, allowing 10 per cent interest, was some 5 cents per 1000 cubic feet less than the revenue received, but that on the basis of a continued use of artificial gas and a continued decline in the business, assertained from the drawing of a curve based on the business of the first few months of 1914, the estimated revenue per 1000 cubic feet would be .165 less than the actual cost of the service, provided that 10 per cent return is allowed. Under the estimates for 1914, the return on defendant's investment would be 7.1% if the existing rates are retained.

The situation is complicated by the fact that on April 20, 1914, defendant ceased to deliver artificial gas and undertook to deliver natural gas to its customers in Coalinga. The natural gas has a heating value of approximately 1,000 B.T.U. per cubic foot, whereas the artificial gas had a calorific value not in excess of 600 B.T.U. Disregarding the effect of the minimum payment required, the substitution of natural gas for artificial gas effected a reduction of practically 40 per cent in the rates charged. It is uncertain whether the supply of natural gas will hold out and it is necessary for defendant to hold its artificial plant in readiness to serve its customers in case there should be a cessation of the supply of natural gas. Careful computations on the basis of a continued use of natural gas show that defendant would derive therefrom a return not in excess of 7.6 per cent upon the investment.

The average number of consumers of defendant during the first four months of 1914 as compared with the corrpsponding period of 1912 shows a decrease of approximately 7 per cent. During the same period the sales of gas have decreased about 28 per cent, thus showing clearly the effect of the falling off in the purchasing power of defendant's patrons, a condition much more serious for an operating company than the mere loss of certain of its customers. During the first four months of 1912 the average sales per customer were 3007 cubic feet, while during the same period in 1914 the average sales were only 2339 cubic feet. The introduction of natural gas with its higher calorific value further decreased the amount of gas consumed, so that whereas during the second four months in 1912 the average monthly consumption per patron was 2112 cubic feet, the consumption for the corresponding period in 1914 was reduced to 1099 cubic feet.

When defendant constructed its plant, Coalinga was a growing community of perhaps 3500 or 4000 inhabitants. At the present time the population is less than 2800 and is continuing to decrease. This condition is due partly to the world wide financial stringency and partly to decrease in activity in the oil fields on which Coalinga is largely dependent.

Under these circumstances, and in view particularly of the possible further decrease in defendant's business before conditions can improve in Coalinga, I consider that it would be unwise to attempt a revision of defendant's rates at the present time, and I accordingly recommend that the complaint be dismissed. This conclusion is based in part on the assumption that defendant continues to pay for natural gas the amount heretofore agreed to be paid. If this amount is decreased, a reduction in the rate charged by defendant may be in order.

Before finally leaving this subject, however, I desire to draw attention to the large percentage of loss in gas reported by defendant, amounting to slightly over 50 per cent during August, 1914. While it is not unusual for large losses to occur immediately after the introduction of natural gas in lieu of artificial gas, these losses should rapidly be reduced to not over 15 per cent under normal operating conditions. I desire particularly to draw defendant's attention to its large losses and to say that there is serious doubt as to whether defendant is justified in continuing to pay a salary of $1500.00 per year to a superintendent unless the losses in distribution are reduced at least 50 per cent in the near future. Both the prices paid for oil and the efficiency of the gas generating plant are open to question.

While it appears that in past years defendant has earned somewhat more than 10 per cent upon the investment, its earnings at the present time, as hereinbefore shown, are but little in excess of 7 per cent, and I am convinced that the fair-mindedness of the people of Coalinga is such as to lead them to conclude that under existing conditions, a return of 7 per cent on defendant's investment is not unreasonable.

I submit herewith the following form of order:

O R D E R.

A public hearing having been held in the above entitled complaint, and the case having been submitted, and careful consideration having been given thereto, and the Railroad Commission finding as a fact that the existing rates charged by defendant for gas supplied to its customers in the City of Coalinga are not excessive or unreasonable, in view of the conditions now prevailing in the City of Coalinga,

IT IS HEREBY ORDERED that said complaint be and the same is hereby dismissed.

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 5th day of November, 1914.

H. D. Loveland
Alex Gordon
Max Thelen
Edwin O. Edgerton

Commissioners.