DECISION NO. ______

ORIGINAL

Decision No. 2458

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of Southern Counties Gas Company, a corporation, for an order authorizing the increase of its gas rates in the City of Orange and for the consumers of the petitioner outside of the City of Orange and in territory adjacent thereto.

Application No.1575.

Le Roy M. Edwards for Petitioner
Hartwick & Pearce for City of Orange
E. J. Marks for City of Fullerton
Homer G. Ames for City of Anaheim
G. H. Scott for City of Santa Ana

LOVELAND, Commissioner.

OPINION

This is an application by Southern Counties Gas Company of California for authority to increase rates for gas in the City of Orange.

Southern Counties Gas Company of California was organized on February 24, 1911 and subsequently acquired by purchase the following gas properties in Los Angeles and Orange Counties:

TABLE I

PROPERTIES ACQUIRED BY SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA

From Whom Acquired	Date of Purchase	Location of Properties
1. Piedmont Gas Company	April 1, 1911	Monrovia and Vicinity
2. Covina Valley Gas Company	April 1, 1911	Covina and Vicinity
3. Southern California Edison Company	April 1, 1911	Whittier
4. Southern California Edison Company	April 1, 1911	Santa Ana
5. Orange County Gas Company	April 1, 1911	Orange, Anaheim and Fullerton

The gas properties involved in this proceeding are located entirely within Orange County and include, in addition to a gas manufacturing plant in Santa Ana, which is not now in use, and a high pressure transmission system connecting the several communities served with the source of natural gas supply, distribution system in the following named cities and towns:

TABLE II

CITIES AND TOWNS SUPPLIED BY SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA IN ORANGE COUNTY.

Name	Classification	Estimated Population
1. Santa Ana	City 5th Class	12,500
2. Orange	City 6th Class	4,000
3. Anaheim	City 6th Class	3,500
4. Fullerton	City 6th Class	3,000
5. Garden Grove	Unincorporated	1,100
6. Tustin	Unincorporated	900
7. Placentia	Unincorporated	700

The present rates in effect in Orange County are shown in Table III.

TABLE III

RATES FOR NATURAL GAS IN ORANGE COUNTY.

(SOUTHERN COUNTIES GAS COMPANY OF CALIFORNIA)

SCHEDULE "A"

Applicable to natural gas for "all ordinary domestic consumption and for industrial consumption having peak load demands."
Effective in the Cities of Santa Ana, Orange, Anaheim and Fullerton and on intervening County Roads.

First 10 M Cu. Ft. per month	75¢ per M.
Next 5 M Cu. Ft. per month	70¢ per M.
Next 5 M Cu. Ft. per month	65¢ per M.
Next 10 M Cu. Ft. per month	60¢ per M.
Next 10 M Cu. Ft. per month	55¢ per M.
Next 10 M Cu. Ft. per month	50¢ per M.
Next 20 M Cu. Ft. per month	45¢ per M.
Next 30 M Cu. Ft. per month	40¢ per M.
Next 50 M Cu. Ft. per month	35¢ per M.
All over 200 M Cu. Ft. per month	30¢ per M

Minimum monthly charge: 50¢ per meter in Cities and $1.00 per meter in unincorporated territory.

SCHEDULE "B"

Applicable to natural gas for "industrial consumption without peak load demand".
Effective in all territory served in Orange County.

First 10 M Cu. Ft. per month	75¢ per M.
Next 10 M Cu. Ft. per month	40¢ per M.
Next 10 M Cu. Ft. per month	30¢ per M.
Next 20 M Cu. Ft. per month	20¢ per M.
All over 50 M Cu. Ft. per month	15¢ per M.

Minimum monthly charge: 50¢ per meter in Cities and $1.00 per meter in unincorporated territory.

SCHEDULE "C"

Applicable to natural gas "for all gas engine power".
Effective in all territory served in Orange County.

Straight Rate 30¢ per M.

Minimum monthly charge: 50¢ per meter in Cities and $1.00 per meter in unincorporated territory.

SCHEDULE "D"

(Tustin Rate)

Applicable to natural gas "for all ordinary domestic consumption and for industrial consumption having peak load demands."
Effective in Placentia, Garden Grove, Tustin and on County Roads adjacent thereto.

First	2 M. Cu. Ft. per month	100¢ per M.
Next	3 M. Cu. Ft. per month	80¢ per M.
Next	10 M. Cu. Ft. per month	75¢ per M.
Next	15 M. Cu. Ft. per month	60¢ per M.
Next	30 M. Cu. Ft. per month	50¢ per M.
Next	40 M. Cu. Ft. per month	40¢ per M.
Next	50 M. Cu. Ft. per month	35¢ per M.
All over	150 M. Cu. Ft. per month	30¢ per M.

Minimum monthly charge: $1.00 per meter.

Petitioner's present application contemplates increasing only the rates now in effect in the City of Orange as shown in Schedule "A", Table III. The rates which petitioner asks authority to establish in Orange are the same rates now effective in certain unincorporated territory in Orange County as shown in Schedule "D", Table III.

Until about May, 1914, the people of Orange were supplied with artificial gas from petitioner's gas manufacturing plant at Santa Ana through a high pressure line which also supplied the Cities of Anaheim and Fullerton and certain unincorporated towns and rural territory.

At that time the transmission system of petitioner consisted of a 4 inch line extending from Santa Ana in a north westerly direction to the City of Anaheim and from Anaheim a 3 inch line extended on to Fullerton, there connecting with a 2 inch line which supplied Placentia. The rates in Orange for artificial gas, as fixed by the Commission in Application No.380, were $1.22 per 1,000 cubic feet for the first 10,000 and $1.00 per 1,000 cubic feet for all gas used in excess of 10,000 cubic feet per month.

Apparently petitioner entered into serious negotiations for the purchase of a supply of natural gas during the latter part of 1913, and on November 17th of that year it entered into an agreement with the City of Fullerton under the terms of which agreement and in consideration of the City of Fullerton not installing a municipal gas distributing system, petitioner obligated itself to have natural gas ready for distribution to the inhabitants of that city "within ninety days from the 21st day of October, 1913". Petitioner further agreed to

> "use its best endeavors to secure a sufficient supply of natural gas for distribution to the citizens of the City of Fullerton: that it will purchase said gas from whatever source may be available, and as long as said supply lasts will, if it is possible for the first party to secure said gas, distribute the same for sale to the citizens of the City of Fullerton".

It is further agreed that the said natural gas

> "will not be mixed with artificial gas, and will contain the best possible number of heat units to the cubic foot thereof".

The price at which natural gas is to be sold in the City of Fullerton shall be,-

> "not more than the sum of seventy-five cents (75¢)

per thousand cubic feet for gas used for domestic purposes and that by and with the consent of the Board of Trustees of the City of Fullerton a reasonable reduction from the price for gas used for domestic purposes will be made for gas used for manufacturing and industrial purposes".

The agreement referred to further provides

> "that at no time during the life of this agreement will the party of the first part charge its consumers more than the rate hereinbefore specified for gas sold in the City of Fullerton, unless a rate in excess thereof is fixed by the Board of Trustees or other rate fixing body having jurisdiction to fix rates in said City".

Having obtained assurance of at least its initial market and forestalled the installation of a municipal distribution system by the City nearest the natural gas fields, petitioner proceeded to secure a supply of gas sufficient for its needs.

Early in 1914 arrangements were made by petitioner for a supply of natural gas from the Olenda oil fields and on January 23, 1914, one A. S. Bradford, assigned to petitioner his contract with the Petroleum Development Company, which contract was dated January 15, 1914, and provided substantially as follows:

(a) Petroleum Development Company agrees to sell to A. S. Bradford and the latter agrees to purchase and receive from the former daily for five years all natural gas which Petroleum Development Company "has to spare and desires to dispose of up to 1,000,000 cubic feet per day of 24 hours". A. S. Bradford is given first right to purchase any natural gas in excess of 1,000,000 cubic feet per day which Petroleum Development

Company "desires to dispose of".

(b) Petroleum Development Company is obligated to sell to A. S. Bradford -

> "only the gas it has available, after retaining all that is necessary for its requirements of every nature, it being the sole judge thereof; which shall include the pumping of water, and topping, cleaning or refining its gas and oil, by itself or through any third party; also gas for its employees and others living upon its property and upon the property of the Atchison, Topeka and Santa Fe Railway Company including the depots at Olenda and Richfield".

(c) Gas is to be measured by a meter furnished and maintained by Petroleum Development Company and the volume of gas is to be computed on a four ounce basis at an altitude of 530 feet above sea level at 60° Fahr.

(d) A. S. Bradford agrees to furnish and install gas engine and booster pump to be located on Petroleum Development Company's premises, said engine and pump to be operated by Petroleum Development Company's employees free of charge.

(e) Bills to be rendered by Petroleum Development Company by 25th of each month.

(f) A. S. Bradford agrees to take the gas -

> "in its regular and uniform passage and measurement through the meter each hour of the day without interruption or break, up to the specified daily limit, and to pay for same at the agreed price hereinafter mentioned, and no claim that the contractor is unable to dispose of the whole of the gas so delivered or offered, shall be a valid objection to such agreed full delivery".

(g) Deliveries of gas to begin as soon as the pipe line of A. S. Bradford has been laid and connections made "but in any case not later than March 15, 1914".

Life of contract is for five years with buyers option of renewal for another like period.

(h) Price of gas furnished under this agreement -

> "shall be eight cents per 1,000 cubic feet for the first five years of this agreement; if the contractor, his successors or assigns shall elect to exercise his or their option for a second period of five years, as provided in section seven hereof, the price shall not be less than eight cents per 1,000 cubic feet".

(i) Contract may be assigned if the assignment is satisfactory to and accepted by Petroleum Development Company.

(j) At expiration of contract purchaser of gas is to have thirty days in which to remove his property from lands of Petroleum Development Company.

On February 18, 1914, the Board of Trustees of the City of Santa Ana passed and approved Ordinance No. 568, fixing the price at which natural gas should be sold to the inhabitants of that city at seventy-five cents (75¢) per 1,000 cubic feet for "any and all illuminating and heating purposes" and also fixing the minimum charge at fifty cents (50¢) per month. This ordinance also provides "that in the event the failure to supply natural gas extends beyond thirty days" then the price at which artificial gas shall be sold shall not exceed $1.00 per 1,000 cubic feet.

On February 18, 1914, petitioner filed with this Commission, concurrently with a separate application for authorization to issue additional bonds for the purpose of building pipe lines to convey natural gas from the oil fields "to the Town of Orange and other localities", an application to charge a rate of 75 cents per 1,000 cubic feet for natural gas to be distributed by petitioner in Orange. This application here referred to sets forth among other things:

> "That a rate of 75¢ per one thousand cubic feet of natural gas is a fair rate for said Southern Counties Gas Company of California to charge for natural gas for domestic purposes within the corporate limits of said Town of Orange, and that the Board of Trustees of said Town of Orange have duly passed resolutions stating that said rate of 75¢ per one thousand cubic feet of natural gas for domestic purposes is a reasonable rate and satisfactory to said Board of Trustees."

As further indicating the plans of petitioner for securing a market for its natural gas and as showing the understanding between petitioner and the several communities as to the price at which this commodity would be sold, I will quote from a report dated May 13, 1914, by William A. Baehr, Consulting Engineer of Chicago, upon the properties and business of petitioner, in which report, after referring to the Fullerton agreement and the Santa Ana ordinance heretofore mentioned as providing for seventy-five cent gas, Mr. Baehr says:

> " **** and the Company at the same time voluntarily agreed to furnish natural gas to the cities of Orange and Anaheim at the same figure, and to Garden Grove at $1.00 per thousand cubic feet."

A careful consideration of the facts above referred to admits of no other conclusion than that the present maximum rate of 75 cents per thousand feet of natural gas sold in the Cities of Santa Ana, Orange, Anaheim and Fullerton was arrived at by petitioner after an exhaustive investigation of the entire subject, and that as a result of such investigation petitioner agreed to establish such maximum rate notwithstanding the fact that it was well known to petitioner that the introduction of natural gas would be followed by a temporary loss, both in the quantity of gas sold and in the revenue to be obtained. That a temporary loss was anticipated is evident from the following statement which appears on Page 282 of Mr. Baehr's report:

> " The amount of business which the company obtains will depend in a great measure upon the vigor with which it is sought. It is extremely difficult to forcast what amount of gas will be sold during the coming years. In the estimate of the consumption of gas per meter per annum for domestic purposes it has been estimated that this consumption would be lower temporarily, but that it would recover within a comparatively short time, and due to the heating load which will be acquired by reason of the lower price and increased quality, will eventually exceed the present consumption."

A supply of natural gas having been obtained, a market secured and the price for that portion of the supply which was to be consumed by practically all of the consumers then connected, having been fixed by ordinance and agreement at a figure which petitioner itself had proposed, petitioner proceeded to connect the supply with its system. A 6" high pressure line was constructed from the Olinda gas field to Anaheim, at which point it feeds petitioner's Orange County system. This line is 8.7 miles in length and was laid at a cost of $32,993.00. It was completed in April 1914, and the delivery of gas commenced in May.

Due to insufficient well pressure to adequately handle the peak load, and the fact that the draft on this field could not be increased without interference with oil pumping operations, it was deemed necessary to obtain an additional supply. Concurrently a number of large industrial consumers were secured so that it was decided to build a line from the Coyote Hills Field. Accordingly on November 18, 1914, a contract was entered into between Murphy and Dillon and Southern Counties Gas Company, whereby the former agreed to supply natural gas to be produced from the wells of the Standard Oil Company at a minimum pressure of 100 pounds per square inch, to an amount not to exceed 2,500,000 cubic feet per day, the minimum being 500,000 cubic feet per day for the first six months, increasing thereafter to 1,000,000 cubic feet after the first year of the contract.

The contract provides that:

> "The point of delivery of all of the gas sold by the sellers and purchased by the buyer hereunder shall be at the terminus of the sellers' pipe line at the north line of Commonwealth Avenue, immediately adjoining its intersection with the center line of said Section 31, Township 3 South, Range 10 West, in the County of Orange, State of California."

This point is some three miles south of the gas field and the intervening pipe line is owned by the sellers. Also,

> "As part of this transaction the sellers will advance to the buyer funds or the equivalent in materials at current market prices with which the buyer is to install its own six inch gas line from the intersection of the center line of said Section 31 with Commonwealth Avenue to the City of Fullerton, California, all of which advances the buyer will repay to the sellers on or before the 1st day of July, 1915, together with interest at the rate of 7% per annum from date of advances and to represent said indebtedness the buyer shall make, execute and deliver to the sellers

its promissory note or notes in such form
as the sellers may require to be secured by
a pledge of $35,000.00 face value of the
buyer's three year gold notes secured by
mortgage upon all of its assets and property."

This portion of the line, 3.6 miles in length, was constructed by petitioner at a cost of $12,356.15.

The gas is measured at the field, at which point delivery is made, at a rate of 10 cents per 1000 cubic feet.

Subsequent to the execution of this agreement and on April 15, 1915, petitioner executed a contract with the same parties, Murphy and Dillon, whereby petitioner agrees to transmit gas over this line for sale to the Anaheim Sugar Company for which service petitioner is reimbursed at the rate of 1-1/2 cents per 1000 cubic feet. To render this service, petitioner was compelled to build some 5,700 feet of six inch line.

Under the two contracts for purchase of gas heretofore alluded to, petitioner is obligated to receive and pay for

1. (Under the Bradford contract) - All excess gas up to 1,000,000 cubic feet per day, and

2. (Under the Murphy-Dillon contract) - 500,000 cubic feet increasing to 750,000 on July 1, 1915, and 1,000,000 on January 1, 1916.

Under actual operating conditions the minimum under the first contract averages 600,000 cubic feet, so that the average total minimum at present is 1,100,000 increasing as heretofore noted.

Petitioner claims an investment in Orange County on February 1, 1915, of $464,829.83 of which $62,635.92 is prorated to the City of Orange. The present or depreciated value of this latter investment, which is claimed to be $61,914.24 made up as follows:

TABLE IV

STATEMENT BY

SOUTHERN COUNTIES GAS COMPANY

OF INVESTMENT PRORATED TO

THE CITY OF ORANGE

Intangible:	Percentage Prorated to Orange	Basis of Segregation	Amount Prorated to Orange
1. Organization Expense	7.4%	Investment	$ 1,561.47
2. Development Expense (Accrued Deficit)	100. %	Orange only	2,150.29
Tangible:			
3. Real Estate	100 %	Orange only	1,367.89
4. Distribution System	100 %	" "	27,457.27
5. Local Transmission	100 %	" "	833.78
6. Natural Gas Lines	14.5%	Meters	6 479.90
7. Primary Transmission Line	14.5%	"	3 459.55
8. Santa Ana Gas Plant etc.	14.5%	"	15 914.76
9. Distribution Equipment (Southern part of territory only)	20.9%	"	1 291.62
10. General Office Furniture and Fixtures (Entire System)	8.3%	"	197.71
Total Investment			$ 61.914.24

While the above tabulation is claimed to represent the investment of petitioner in connection with gas service supplied to the City of Orange, it is obvious that the total figure of $61,914.24 is in reality an estimate of the cost to reproduce less an estimated accrued depreciation, the basic figure having been obtained largely from valuation reports heretofore made of petitioner's property.

While I do not feel that it is necessary at this time to go into extensive detail regarding the investment necessary to serve natural gas within the City of Orange, I desire to call attention to the fact that the method of prorating used by petitioner cannot but result in an undue burden being placed on the consumers of gas in that city. To make this point clear I will refer to Items No. 6 and No. 7 in Table IV. These gas lines and transmission lines representing, according to petitioner, a joint investment of $68,548.38, during the period from July 1, 1914 to March 1, 1915, supplied the City of Orange with only 7,799,000 cubic feet of natural gas out of a total of 135,970,000 cubic feet sold in Orange County. Notwithstanding the fact that petitioner's patrons in the City of Orange consumed only 5.7% of the gas transmitted through the lines referred to, 14.5% of the total cost of the lines are prorated to Orange on the method used.

Another point worthy of mention is that, notwithstanding the fact that, under the provisions of Ordinance No. 568, passed by the Board of Trustees of the City of Santa Ana on February 16, 1914, by the terms of which petitioner is required to maintain a manufacturing plant for artificial gas in that city, 14.5% of the cost of the Santa Ana plant is prorated by petitioner to the City of Orange. It would appear that, insofar, at least as the territory served by petitioner outside the City of Santa Ana is concerned, that the present Santa Ana plant is not necessary at this time, and that it would be more proper to amortize the remaining value of that plant over a period of years than to attempt to maintain it to provide for the rather remote possibility of continued interruption of the transmission system.

There are other rather important questions pertaining to the segregation of capital to Orange, which it will be necessary to consider before a final rate is fixed for that city, but which I will not attempt to discuss at this time.

The cost of service supplied in the City of Orange for the period of seven months from July 1, 1914 to February 1, 1915, is estimated by petitioner to be as follows:

TABLE V

STATEMENT BY
SOUTHERN COUNTIES GAS COMPANY
OF COST OF SERVICE IN ORANGE
July 1st, 1914 to Febry. 1st, 1915.

1.	Cost of Gas Delivered (6,359,000 cubic feet)	$ 773.41
2.	Cost of Transmission (5.5% of Total Expense)	90.03
3.	Cost of Distribution in Orange (Actual)	637.87
4.	Commercial Expenses in Orange (Actual)	892.34
5.	General Expenses (8.3% of Total General Expense)	1 316.46
6.	Taxes (Prorated on Investment Basis)	564.64
7.	Amortization of Bond Discount (Prorated on Investment Basis. 7.4% of Total	284.90
	Total Expense exclusive of Depreciation (Carried Forward)	4,559.65

TABLE V (Cont'd.)

STATEMENT BY

SOUTHERN COUNTIES GAS COMPANY

OF COST OF SERVICE IN ORANGE

July 1st, 1914 to Febry. 1st, 1915

	Brought Forward Total Expense exclusive of Depreciation	$ 4,559.65
8.	Depreciation at $100.00 per month	700.00
	Total Expense	$ 5,259.65

The total gross revenue from the City of Orange for the same period covered by Table V is reported as $5,000.84.

Petitioner's statement as to cost of service in Orange is subject to much the same criticism as is the statement of investment set forth in Table IV. By the petitioner's method of prorating the several items of expense, the cost of service in Orange is made to appear much higher than it would be if a more equitable basis of segregation had been used. For example, the item "Taxes" has been prorated on an investment basis when, as a matter of fact, taxes are now, and have for a number of years past, been paid on the basis of gross revenue. On a proper basis, and at the rate effective for the period covered by petitioner's statement, the taxes applicable to petitioner's business in the City of Orange could not have exceeded $409.21 as compared with petitioner's segregation of $564.64 for this item.

The item "General Expense $1,316.46" appears very high in comparison with the other expenses involved, being more than 35% of the total of Items No. 1 to No. 5 inclusive, and practically 55% of the items No. 1 to No. 4 inclusive. This item of expense may, however, be justified upon further investigation.

The item "Amortization of Bond Discount, $284.90" has no place in an operating expense statement, inasmuch as it is essentially a part of the cost of obtaining money to be considered and provided for, when proper, in the rate of return which is allowed.

Item No. 8, "Depreciation at $100.00 per month, $700.00", while possibly justifiable on a "depreciated value" theory, which contemplates a corresponding deduction from capital in determining an equitable basis for estimating a proper rate of return, is much too high on the basis of value set forth in petitioner's statement of investment as shown in Table IV. On Petitioner's basis of investment, a proper depreciation annually should be provided by a sinking fund with interest at, say 6%. This method would result in an annuity not to exceed $486.00 for the seven months. These adjustments alone which are only tentative, would reduce the total expense, less depreciation, to $4,154.32, leaving $846.52 for interest and depreciation. Obviously the amount thus available is less than it should reasonably be after sufficient time has elapsed for the revenue to again become normal. On the other hand it is probable that with a careful segregation of the costs properly assignable to service in Orange, the balance applicable to interest and depreciation would be greater than the sum above mentioned. It is also to be expected that, with returns for a full years operation upon a natural gas basis, the gross revenue will materially increase and a corresponding increase in net earnings will be realized.

Another factor of great importance in its effect on the cost of service, is the excessive loss which has heretofore existed, due to inability to dispose of the gas supplied in accordance with contractual minima. It is to be expected that a considerable reduction in this waste will result from the improvement in load factor due to increased industrial sales.

Consideration must be given to the effects of the growth of the industrial load other than the reduction of losses. In any case in which the sale price exceeds cost of gas plus ordinary losses, this class of business obviously reduces the cost of service. It may return even less than this and still have the same effect, provided that it utilizes only gas that would otherwise waste.

One contract which petitioner has secured which will have a most decided effect on its revenue, is that for transmission of gas to the Anaheim Sugar Company, heretofore referred to. Petitioner estimates a net return from this contract of $4,740.00 in 1915, over and above operating expenses and losses. A total estimated investment will be required to supply this load of $4,867.00, of which some $2,700.00 is useful and necessary in augmenting transmission capacity. Taking fixed costs at 10% of the balance, we have a net profit of $4,523.00.

In order to determine the effect which the introduction of natural gas and the reduction of rates has had upon petitioner's business in Orange, and whether or not the present conditions, as pointed out by petitioner, may be considered as permanent or only of a temporary nature, the following analysis has been made covering the period from April 1911 to and including March 1915:

TABLE VI.

OPERATING STATISTICS
SOUTHERN COUNTIES GAS COMPANY
OF CALIFORNIA
(City of Orange)

Year	July 1st Number Consumers	Increase or Decrease	Gas Sold M.Cu.Ft.	Increase or Decrease	Revenue Dollars	Increase or Decrease
1911 (9 mo.)	397		4,455		$6,299.95	
1912	454	14.36%	9,932	*+68.07%#	11,978.77	*+46.68%#
1913	528	16.30%	11,826	+19.06%	14,165.48	+18.16%
1914	693	31.25%	10,767	- 8.70%	10,481.21	-26.01%
1915 (3 mo.)	826	*35.18%	5,179	+51.21%	3,303.62	-20.34%

* Increase or decrease compared with same period of previous year

\# Estimated.

The above tabulation shows the general effect of the substitution of natural for artificial gas in May 1914, and indicates a material improvement during the first three months of 1915, Table VI. also shows a remarkable increase in in the number of consumers served by petitioner following the introduction of natural gas and the reduction of rates, which two factors, a higher grade product and a lower price, combined to make the use of gas more popular.

The effect of natural gas at lower rates upon the gross revenue received by petitioner from the City of Orange, each month since natural gas was substituted for the artificial product, as compared with the same period for the year previous is shown in the following tabulation:

TABLE VII.

GROSS REVENUE FROM SALE OF GAS IN ORANGE.

(11 Months ending March 31, 1915, compared with the same period ending March 31, 1914.)

Month	1913	1914	Decrease
May	$ 1 166.55	$ 543.00	53.5%
June	1 179.50	517.04	56.2%
July	1 047.97	537.30	48.7%
August	1 007.53	556.10	44.8%
September	1 150.61	625.08	45.7%
October	1 302.72	638.56	51.0%
November	1 502.08	724.47	51.8%
December	1 296.46	838.50	35.4%
	1914	1915	
January	1 588.42	1 080.83	32.0%
February	1 246.27	1 094.08	12.2%
March	1 312.38	1 228.71	14.0%

The comparison made in Table VII. shows that the maximum decrease in revenue, amounting to 56.2% occurred during the second month following the introduction of natural gas, and that this condition continued with slight improvement for five months thereafter, after which period the earnings rapidly increased, until at the end of eleven months the gross revenue was only 14% less than it had been the year before. Even more significant is the information obtained by comparing the average consumption per consumer in Orange for the month of maximum decrease in gross revenue, with that for the month of minimum decrease in revenue shown in Table VII. This comparison discloses the fact that in June 1913, the average consumption per consumer was 1,855 cubic feet, while in June 1914, the average was only 946 cubic feet: a decrease of 49%. However, in February 1914, the average consumption of gas was 1,678 cubic feet, as compared with 1,744 cubic feet in February 1915: a net increase of 3.9%.

The above comparisons deal only with conditions in the City of Orange, which are not typical of the conditions over the entire Orange County district served by petitioner. An excellent comparison between conditions prevailing over all territory served from petitioner's Orange County system when artificial gas only was being supplied, and the conditions existing eleven months after the introduction of natural gas, is obtained in the following table, using the month of March as a basis:

TABLE VIII.

COMPARISON OF OPERATING STATISTICS
For The Month of March 1914 & 1915

ORANGE COUNTY

	1914	1915
Gas Sold	8,617,600 cu.ft.	19,766,800 cu.ft.
Gross Revenue	$ 8,901.24	$ 9,277.26
Meters in Service	4,489	5,763
Average Consumption per Meter	1,919 cu.ft.	3,430 cu.ft.
Average Revenue per Meter	$ 1.98	$ 1.61
Average Revenue per 1000 cu.ft.	$ 1.03	$ .47

After a careful consideration of all the circumstances connected with this application, I am convinced that sufficient time has not elapsed to determine with a reasonable degree of certainty whether or not the rates voluntarily established by petitioner in the City of Orange and other communities in Orange County will yield a reasonable return upon the investment of petitioner used and useful in connection with the distribution of natural gas in that territory. While the efforts of petitioner, which have resulted in giving the inhabitants of Orange County a better service at lower cost, are to be commended, and while the Commission will not hesitate to readjust the present rates if it is found that after a fair trial the revenue to be derived is inadequate, I desire to call attention again to the fact that the present rates were voluntarily established by petitioner apparently after a careful investigation of conditions existing in the entire territory to be served by it in Orange County. If it should develop later that after a fair trial the present rates are inadequate and petitioner should desire to again bring the matter to the attention of this Commission, the Commission will at such time carefully consider the entire problem, including any losses which petitioner may have theretofore sustained by reason of the introduction of natural gas and the reductions of its rates, with a view to determining what, if any, modifications should be made in the rates then in effect to enable petitioner to profitably continue its business in Orange County. However, for the reasons hereinbefore stated, this Commission cannot be expected, after only a few months operation under the present rates, to grant an increase in one particular community upon the showing that for such a period the rates, as applicable to that locality, may not have yielded the anticipated revenue. There is another and very important phase of the problem which merits careful consideration, both by petitioner and by this Commission, which has to do with the consumers of gas in the City of Orange and in other communities. Apparently, relying upon petitioner's ability to grant and willingness to continue the rates established for natural gas, a relatively large number of persons have purchased appliances and made other material expenditures incidental to obtaining gas service. These consumers, individually, are entitled to feel that their contracts for service will receive the same consideration and entitle them to the same degree of protection as would the contracts with entire communities.

In view of all the facts now before the Commission, and for the reasons heretofore set forth, there remains no alternative other than to recommend that the application be denied without prejudice.

I submit the following form of order:

O R D E R

A public hearing having been held in the above entitled proceeding, and the same having been submitted and being now ready for decision

IT IS HEREBY ORDERED that the above entitled application be, and the same is hereby denied without prejudice.

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 7th day of June, 1915.

Max Thelen

H. D. Loveland

Alex Gordon

Edwin O. Edgerton

COMMISSIONERS