

ORIGINAL

Decision No. 2572

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

* * * *

Thomas Monahan, as Mayor of the City of San Jose, a municipal corporation of the State of California,

Complainant,

vs

Pacific Gas and Electric Company, a corporation,

Defendant

Case No. 478

John W. Sullivan for Complainant

Chas. P. Cutten for Defendant

EDGERTON: Commissioner

OPINION

This is the complaint of Thomas Monahan, as Mayor of the City of San Jose, against the Pacific Gas and Electric Company.

The complaint is directed against the price at which artificial gas is sold in the City of San Jose. The

specific instances were recited where applicants had failed to receive service.

An inventory and appraisal of defendant's gas plant and system at San Jose was prepared by the Commission's engineering department, which valuation report was presented at the hearing, together with statements and reports prepared on behalf of defendant and relating to its gas properties in San Jose, and testimony relating to the various reports and statements was given by the engineers of the Commission and engineers and representatives of defendant.

No books or other data bearing on the original cost of the plant to the defendant (Pacific Gas and Electric Company) or to its predecessors were introduced, and defendant testified that ~~no books~~^{such} were not available. One of defendant's engineers presented an exhibit purporting to show the cost of developing the business to its present condition. This was prepared on the so-called comparative plant method. As no attempt was made to identify any part of it with the financial history of the existing plant, and so many assumptions are involved, it may be considered purely hypothetical.

Defendant presented a statement of its gas capital in San Jose. This was based on a valuation prepared by J. G. White and Company as of December 31, 1911, adjusted for the book cost of subsequent additions and betterments.

A summary of this valuation, and that of the Commission's engineers follows.

TABLE I.

PACIFIC GAS AND ELECTRIC COMPANY

SAN JOSE DISTRICT

STATEMENT OF CAPITAL

GAS DEPARTMENT

DEC. 31, 1913.

NON LANDED CAPITAL

	City of San Jose
Generating Capital	
1000 - Works and Station Structures	27 351 59
1001 - General Structures	692 50
1002 - Steam Producers and Accessories	14 459 60
1003 - Gas Generators	24 706 00
1005 - Steam and Gas Engines	1 897 47
1006 - Purification Apparatus	40 052 63
1007 - Holders	74 039 00
1008 - Accessory Gas Plant Equipment	18 924 67
1009 - Fuel Oil Tanks	13 482 00
1010 - Station Pipe Lines	13 243 67
1011 - Tools and Appliances	411 19
1014 - Furniture and Fixtures	<u>562 00</u>
Generating Capital	229 822 32
Undistributed Construction Expenses	<u>396 45</u>
Total Generating Capital	230 218 77
Transmission Capital	
1100 - General Structures	964 00
1101 - Boosting Apparatus	7 999 04
1102 - Trunk Lines	728 26
1105 - Regulators	<u>1 551 00</u>
Transmission Capital	11 242 30
Undistributed Construction Expenses	<u>288 14</u>
Total Transmission Capital	11 530 44
Distribution Capital	
1201 - Mains	466 218 74
1202 - Services	80 947 98
1205 - Commercial Arc Lamps	11 376 55
1206 - Gas Meters	62 849 32
1207 - Tools and Appliances	1 106 16
1208 - Horses, Wagons and Harness	1 365 00
1209 - Autos, Motorcycles and Bicycles	25 15
1210 - Furniture and Fixtures	<u>599 96</u>
Distribution Capital	624 488 86
Undistributed Construction Expenses	<u>2 089 73</u>
Total Distribution Capital	626 578 59

TABLE I. (Con'd.)

PACIFIC GAS AND ELECTRIC COMPANY

SAN JOSE DISTRICT

STATEMENT OF CAPITAL

GAS DEPARTMENT

DEC. 31, 1913.

NON LANDED CAPITAL

	City of San Jose
Gas Department Capital	865 555 48
Undistributed Construction Expenses	<u>2 774 32</u>
Total Gas Department Capital	868 327 80
Proportion All Dept. Capital	2 770 83
Undistributed Construction Expenses	<u>27 61</u>
Total Proportion All Dept. Cap.	2 798 44
Total Non Landed Capital	871 126 24

LANDED CAPITAL

Gas Department	57 250 00
Proportion All Department	<u>1 989 35</u>
Total Landed Capital	59 239 35
Total Valuation (Less Working Capital)	910 365 59
Working Capital	
Materials and Supplies	10 567 45
Accounts Receivable less Consumer's Advances	14 333 38
Cash	<u>11 028 47</u>
Total Working Capital	35 929 30
Total Valuation	946 294 89

TABLE II.

VALUATION OF C. R. C.
ENGINEERING DEPARTMENT.

Account & Item	Estimated Cost of Reproduction	Amount of Annual Depreciation	Present Value
Gas Plant Buildings & General Structures			
Brick Buildings, Corrugated			
Roofs	\$ 14 640.	\$ 488.	\$ 9 999.
Corrugated Iron & Wooden Buildings	2 139.	86.	1 241.
Concrete Meter House	3 157.	78.	2 980.
Brick Fence	1 972.	66.	1 576.
Corrugated Iron Fence	680.	57.	388.
Ground Improvements	<u>720.</u>		<u>720.</u>
Total Gas Plant Bldgs. & G.S.	23 288.	775.	16 904.
Gas Holders	59 791.	4 981.	45 621.
Furnaces, Boilers & Accessories	6 086.	304.	3 956.
Gas Generators	15 712.	668.	10 700.
Steam Engines	1 125.	56.	450.
Purification Apparatus			
Wash boxes and Scrubbers	9 841.	328.	7 217.
Purifiers	<u>12 758.</u>	<u>319.</u>	<u>10 844.</u>
	22 599.	647.	18 061.
Miscellaneous Gas Plant Equipment	2 165.	108.	1 515.
Accessory Equipment at Works			
Exhausters, Boosters & Governors	8 768.	351.	7 891.
Lamp-black System	778.	52.	363.
Wooden Tanks	4 036.	202.	2 020.
Steel Tanks	7 645.	191.	6 689.
Wells	1 719.	34.	1 616.
Pumps	1 571.	79.	1 257.
Cast Iron Gas Piping	14 071.	704.	11 609.
Miscellaneous Piping, etc.	<u>7 047.</u>	<u>470.</u>	<u>5 165.</u>
	45 635.	2 083.	36 610.
Miscellaneous Production Equipment	2 262.	151.	1 810.

TABLE II. (Con'd.)

VALUATION OF C. R. C.
ENGINEERING DEPARTMENT.

Account & Item	Estimated Cost of Reproduction	Amount of Annual Depreciation	Present Value
Gas Mains			
Cast Iron	230 855.	4 617.	198 518.
Wrought Iron	94 573.	4 729.	66 201.
Valves	1 162.	58.	813.
Trestles	904.	60.	723.
	<u>327 474.</u>	<u>9 464.</u>	<u>266 255.</u>
Gas Services	76 016.	5 067.	50 672.
Gas Meters	56 050.	3 733.	37 329.
Office Furniture and Fixtures	1 547.	103.	1 258.
Stable and Garage Equipment			
Automobiles	2 625.	525.	1 575.
Wagons and Harness	695.	58.	463.
Horses	400.		400.
	<u>3 720.</u>	<u>583.</u>	<u>2 438.</u>
Tools and Testing Instruments	1 453.	179.	796.
General Structures	2 102.	70.	1 402.
Sub-Total Valuation	<u>648 806.</u>	<u>28 972.</u>	<u>495 757.</u>
Engineering Superintendence, etc.	64 801.		64 801.
Contingencies	35 640.		35 640.
Interest During Construction	22 453.		22 453.
Materials and Supplies	13 703.		13 703.
Working Cash Capital	22 591.		22 591.
Land Used for Gas Operations	24 299.		24 299.
Total Valuation	<u>831 492.</u>	<u>28 972.</u>	<u>679 244.</u>

The valuation of the Commission's engineers, as set forth in Table II., does not include some items contained in defendant's statement of capital -- notably, Proportion of All-Department Capital, both landed and non-landed, and Commercial Arc Lamps.

The values claimed by defendant exceed those shown in the appraisal prepared by the Commission's engineer in a number of instances, the principal items apparently being as follows:

Commercial Arc Lamps	Excess = \$11,376.00
Gas Plant Equipment	" 17,999.00
Gas Mains	" 47,454.00
Paving over Mains	" 28,610.00
Land	" <u>14,940.00</u>
Total Excess	\$120,359.00

On the other hand, the valuation submitted by the Commission's engineer exceeds that of defendant in a number of items, notably by approximately \$14,000 on generating plant piping, and \$3,000 on boosting apparatus, the net difference being \$114,802.00.

Defendant's auditor testified in regard to the first item above that the arcs were rented to the consumer at the rate of \$.50 per month per lamp, and that the total rental in 1913 amounted to \$3,470.20. It may be proper, inasmuch as the issue involved in this proceeding is the rate for manufactured gas, to exclude this property in an ascertainment of the cost of the above service, in which case, of course, the revenue derived from rental of lamps should not be included. Of course if defendant should incur a deficit in the general sale or rental of appliances to its consumers, this deficit might, under certain circumstances, be reasonably treated as part of the cost of obtaining new business. The case in point is, however, not of this nature, as

any deficit which might result from these operations, if included in ratable capital, would be a concession to a particular class of consumers at the expense of the others. At this time I desire to call attention to the fact that defendant has not presented information regarding its general appliance business, which business should obviously be charged with a portion of the district operating and general office expenses.

The Commission's engineer testified that his unit prices on gas generating and purifying equipment were based, in part, on the actual cost of such work obtaining in Southern California, and defendant contends that in so deriving his unit costs he has not given proper consideration to higher costs of labor alleged to prevail in the northern part of the State. The evidence in this case does not justify the contention of defendant that there is any material difference either in the cost or efficiency of labor as between San Jose and Southern California, nor did defendant enlighten the Commission as to the actual cost to it of skilled and unskilled labor, or disclose the bases used by its engineers and the J. G. White Company in arriving at estimates covering the cost of labor. Under the circumstances, a mere assumption on the part of defendant that the Commission's engineer, in arriving at costs applicable to San Jose, used figures which were not representative of the true conditions existing in that city, can carry little weight in a determination of the issues involved. Inasmuch as the valuation of the Commission's engineer exceeds that of defendant by approximately \$14,000 on the item of plant piping, it seems probable that much of the difference in the valuations of generating equipment might be

attributed to a difference in segregation of pipe, rather than to an error in the cost of labor.

The largest difference occurs in the item of gas mains, as detailed heretofore.

The question of paving over mains, where the cost of such paving has not been incurred, has been discussed at length by this Commission in various other cases, and any further treatment of the matter at this time would be superfluous.

The proper allowance for overhead charges in connection with the construction of properties such as that under consideration, is almost entirely a matter of opinion, and little, if any, actual data has ever been presented to this Commission in support of the widely divergent views of the various engineers appearing before us. Under such circumstances the Commission must use its own judgment in the matter, based on any information which may be available.

Defendant introduced a statement setting forth the alleged actual cost of construction of 10,350 feet of main recently laid in San Jose. Applying unit costs of the Commission's engineer to this particular work, defendant obtained a result approximately 7% less than what is claimed to be the actual cost, from which it concludes that his unit prices on mains are uniformly low by this percentage. I am not impressed with this contention of defendant, particularly since its district superintendent stated that this main is a belt feeder line which was tied in with all the distribution mains which it crosses, and hence not typical of the entire distribution system. The Commission's engineer testified that his prices of material were taken from the records of defendant's purchasing department wherever obtainable; that labor

costs were estimated and checked against actual costs with which they agreed quite closely in most cases. In view of this testimony, lack of agreement in one isolated piece of construction is hardly sufficient ground for the conclusion that the unit prices are invariably wrong.

The land expert of this Commission placed a value of \$22,134 upon the real estate occupied by defendant's gas plant, which figure was based on an appraisement submitted to him by the Realty Board of San Jose. Their figure, \$21,080, amounts to 25 cents per square foot of area, to which was added 5% as the cost of securing the land. Defendant claims the value of \$37,250, or 44.1 cents per square foot.

Mr. T. C. Barnett, a real estate dealer of San Jose, called as a witness for defendant, appraised this property at \$34,300, or 40 cents per square foot. On account of the effect of recent large purchases by the Southern Pacific Company in securing a right-of-way in this vicinity, which would tend generally to inflate values, and the selling of a large lot at a price alleged to be below its real value, the determination of the true value of defendant's real estate is extremely problematical, and a wide variation in the opinion of the experts is to be expected. Counsel for complainant stated his willingness to accept the judgment of Mr. Barnett as to the value of this land, but of course such a stipulation is not necessarily binding upon this Commission in a determination of its value.

Defendant introduced a statement of the operating expenses of its gas department in San Jose for the year 1913, as set forth in Table III. below.

TABLE III.

PACIFIC GAS AND ELECTRIC COMPANY

SAN JOSE

STATEMENT OF EXPENSES

GAS DEPARTMENT

YEAR 1913

COSTS

EXPENSES

1. Maintenance of Generating Capital		
A. - Works and Station Structures		66 05
B. - General Structures		16 56
C. - Steam Producers and Accessories	1	878 57
D. - Gas Generators	1	888 44
E. - Steam and Gas Engines		59 81
F. - Purification Apparatus		260 79
G. - Holders		44 42
H. - Accessory Gas Plant Equipment		703 35
I. - Fuel Oil Tanks		5 61
J. - Station Pipe Lines		14 98
K. - Tools and Appliances		106 23
	Total Maintenance of Generating Capital	5 024 81
2. Maintenance of Transmission Capital		
A. - Boosting Apparatus		45 23
B. - Horses, Wagons and Harness		25
	Total Maintenance of Transmission Capital	45 48
3. Maintenance of Distribution Capital		
A. - General Structures		- -
B. - Mains	1	246 12
C. - Services		470 81
D. - Commercial Arc Lamps		4 86
E. - Gas Meters	1	636 85
F. - Tools and Appliances		307 50
G. - Horses, Wagons and Harness		315 55
H. - Autos, Motorcycles and Bicycles		677 97
I. - Furniture and Fixtures		14 58
	Total Maintenance of Distribution Capital	4 674 24
4. Generating Expenses		
A. - Steam Plant		5 813 21
B. - Generating Plant		5 693 75
C. - Purification Plant	1	146 84
D. - Fuel Oil for Steam		222 56
E. - Fuel Oil for Gas	46	713 17
F. - Lampblack Expense for Steam	3	435 19
G. - Lampblack Expense for Gas		16 05
H. - Lampblack Expense Removing	1	413 45
I. - General Labor and Supplies	4	675 96
J. - Superintendence	2	113 60
K. - Office Salaries		189 40

TABLE III. (Con'd.)

PACIFIC GAS AND ELECTRIC COMPANY

SAN JOSE

STATEMENT OF EXPENSES

GAS DEPARTMENT

YEAR 1913.

4. Generating Expenses (Con'd.)	
L. - Office Expense	<u>20.75</u>
Total Generating Expenses	71 421 83
5. Transmission Expenses	
A. - Boosting Apparatus	<u>50 40</u>
Total Transmission Expenses	50 40
6. - Distribution Expenses	
A. - Sets and Outs	2 356 82
B. - Complaints	2 525 56
C. - Inspectors	3 04
D. - Statements	1 139 98
E. - Collectors	1 774 39
F. - Trimming Commercial Arc Lamps	2 712 67
G. - Gratuitous Service	122 26
H. - Free Lamp Renewals	26 26
I. - New Business Expense	3 150 23
J. - Superintendence	1 806 15
K. - Office Salaries	6 948 15
L. - Office Expense	2 463 40
M. - Stable Expense	1 535 91
N. - Auto Expense	87 76
O. - General Labor and Supplies	518 84
P. - Sundry Expense	395 41
Q. - Warehouse Expense	<u>142.20</u>
Total Distribution Expenses	27 709 03
7. Miscellaneous	
A. - Taxes	9 238 61
B. - Floating Debt Interest	3 225 26
C. - Uncollectible Accounts	671 67
D. - Administrative Expenses	<u>13 482 95</u>
Total Expenses	155 544 28

TABLE III. (Con'd.)

PACIFIC GAS AND ELECTRIC COMPANY

SAN JOSE

STATEMENT OF EXPENSES

GAS DEPARTMENT

YEAR 1913.

S. - Reserves	
A. - Fire Insurance	1 912 95
B. - Casualty Insurance	1 868 69
C. - Annual Amortization of Depreciable Cap.	
a. - Depreciation	28 932 58
b. - Obsolescence Inadequacy	
c. - Contingencies, etc.	<u>12 859 73</u>
Total Reserves	45 573 95
TOTAL COSTS	181 118 23

Expense items 1, 2, 3, 4, 5, and 6 in Table III. are taken directly from defendant's books, except that certain office and other general expenses have been prorated between Los Gatos and San Jose, and between the gas and electric departments in San Jose. These have been analyzed and accepted as reasonable and proper in the determination of the cost of this service.

Expenses included in item 7 are obtained by an arbitrary apportionment upon various bases of the entire amount of such expenditures made by defendant over its system.

Account 7-A represents a gross revenue prorata of the taxes paid during 1913 for the year previous. In determining the proper amount for this item, in arriving at the cost of service, the proper percentage has been applied to the sum of all other costs.

Account 7-B is covered by the return allowed defendant on its property, including working cash capital, and is not properly an item of expense.

Account 7-D is a prorata of general system administrative expense upon a basis differing from that heretofore used by this Commission in determining the cost of service from defendant's system.

The figures shown under item 8 do not reflect any charges as set up on defendant's books, but are rather defendant's estimate of the annual amount which it should be allowed to earn to create the various reserves as set forth in Table III.

Defendant carries its own fire and casualty insurance, but no attempt was made to show the relation of these estimates to the actual losses annually incurred from fire and accident, either in defendant's San Jose district or over its entire system. Apparently the estimate for casualty insurance has been derived by application to defendant's pay-roll of the rates quoted by the State Compensation Insurance Fund, but there is nothing in the record to indicate that these same rates will apply in the future, nor that defendant would have to pay these rates if it were actually in the market for casualty insurance.

After a careful consideration of all the evidence, I find that the following rates are just and reasonable, and that they will result in a net return of not less than eight (8%) per cent. on a fair value of defendant's gas plant and system in San Jose and vicinity, and that they will be at least sufficient to provide for such extensions and improvements to said system as may be necessary to adequately and properly serve the City of San Jose and vicinity:

TABLE IV.

SCHEDULE "A" RATE FOR
ARTIFICIAL GAS

Applicable to all classes of consumers.

\$1.00	for the first	5,000	cubic feet of gas used per month
.90	" "	second 5,000	" " " " " "
.80	" "	next 10,000	" " " " " "
.70	" "	all over 20,000	" " " " " "

Minimum charge \$.50 per month per meter.

This rate contemplates the service of manufactured oil gas of an average heating value not less than 600 British thermal units per cubic foot.

While it would seem that a more liberal policy on the part of defendant in regard to service extensions might well have been followed, the evidence does not warrant an order at this time covering specific cases. The general problem of service extensions is being considered by the Commission in another proceeding, and because of this fact, and the insufficiency of the evidence in this case, I must recommend that the complaint as to extensions be dismissed.

I recommend the following form of order:

ORDER

Public hearings having been held in the above entitled proceeding, and the case having been submitted and being now ready for decision, the Railroad Commission hereby

finds as a fact that the rates charged by Pacific Gas and Electric Company for artificial gas in the City of San Jose and vicinity are unjust and unreasonable in so far as they differ from the rates herein established, and that the rates herein established are fair and reasonable.

Basing its order on the foregoing finding of fact, and on the further findings contained in the opinion preceding this order

IT IS HEREBY ORDERED that Pacific Gas and Electric Company establish and file with this Commission within twenty (20) days from the date of this order, and thereafter charge and collect for gas service supplied by it in the City of San Jose and vicinity the following rates:

SCHEDULE "A" RATE FOR
ARTIFICIAL GAS

Applicable to all classes of consumers.

\$1.00	for the first	5,000	cubic feet of gas used per month
.90	" "	second 5,000	" " " " " " "
.80	" "	next 10,000	" " " " " " "
.70	" "	all over 20,000	" " " " " " "

Minimum charge \$.50 per month per meter.

This rate contemplates the service of manufactured oil gas of an average heating value not less than 600 British thermal units per cubic foot.

Except as to those matters specifically covered in the foregoing order, the complaint is 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 8th
day of July, 1915.

H. B. Howland

Alex Gordon

Edwin O. Edgerton

COMMISSIONERS.