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Decision No. \_\_\_\_\_

ORIGINAL

Decision No. 2887

BEFORE THE RAILROAD COMMISSION OF  
THE STATE OF CALIFORNIA.

In the Matter of the Application of )  
WEST SIDE GAS COMPANY for an order ) Application  
authorizing an increase in rates for )  
natural gas in the City of Taft. ) No. 1787.

Joseph McDonald for Applicant.

Charles del Bonbio for City of  
Taft, Protestant.

BY THE COMMISSION.

O P I N I O N

This is an application by the WEST SIDE  
GAS COMPANY, hereinafter referred to as the "Gas  
Company", for an order authorizing an increase of  
its rates for natural gas in the City of Taft.

Applicant is a corporation engaged in the  
business of distributing and selling natural gas in  
the cities of Taft and Maricopa, Kern County.

The present rates were established by this  
Commission in case No. 516, decided May 21, 1914.

after an examination of the company's entire property and an apportionment of all of its overhead expenses, upon the basis of the respective sales of gas in each of these cities.

In the above mentioned decision (No. 1533) this Commission found that a fair value of that portion of the property of the Gas Company chargeable to the City of Teft was \$18,592.36; and it estimated that the operating expenses, interest and depreciation for the year ending June 30, 1915, would be as follows:-

Fixed Charges:-

Interest @ 9%	\$1,673.31	
Depreciation (annuity)	<u>1,361.59</u>	
		\$3,034.90

Operating Expenses:-

Gas purchased (36,365,515 cu.ft. @ 7¢)	2,545.43	
Transmission	436.40	
Distribution	2,160.92	
Commercial	1,420.66	
General office salaries and expense	4,009.60	
Miscellaneous & general expense	2,488.70	
Taxes	<u>776.14</u>	
Total Operating Expenses		<u>\$13,837.85</u>
TOTAL		\$16,872.75

This estimate was based on the assumption that the sales of the Gas Company would increase at the same rate during the year 1914 as they had increased during the year 1913, namely, 17.08 per cent. This rate of increase was computed from rec-

ords showing that the consumption of gas in the City of Taft had been increasing steadily year by year, and apparently the officers of the Gas Company themselves expected the consumption of gas to continue to increase at approximately the same rate. As a matter of fact, however, instead of increasing 17 per cent. the sales during the year decreased approximately 6 per cent. and the Gas Company, therefore, filed this application.

The report of the Gas Company for the year ending June 30, 1915, submitted in evidence at the hearing, shows the following revenue and expenses for its business in the City of Taft.

Gross income from gas operations \$14,539.09

Operating expenses:

Gas purchased	\$2,360.53	
Transmission expense	366.53	
Distribution expense	2,855.31	
Commercial expense	2,445.91	
General office, salaries and expenses	3,579.59	
Miscellaneous & general expense	795.17	
Taxes	573.50	
Insurance	600.00	
Uncollectible bills	<u>390.37</u>	
	\$13,966.91	<u>\$13,966.91</u>

Net income for interest and depreciation .....\$ 572.18

It appears that the actual loss of gas for said year, as shown by the amount purchased at wholesale compared with the amount sold to the Gas Company's consumers, was excessive. We cannot allow

the company to place upon its consumers the burden resulting from an unreasonably large loss; and accordingly we shall expect it to reduce this item materially in the immediate future. This Commission, in its former decision (No. 1533) estimated that the loss should not exceed 16-2/3 per cent. of the gas purchased at wholesale; and we see no reason for allowing the company any greater loss in the future.

From a study of the growth and decline of the demand for gas as shown by the number of consumers connected, it appears that the Gas Company's business has passed its maximum and that a steady decrease will continue for some time. This decrease is a general characteristic of all oil towns after a certain well-defined maximum has been reached, and it should be recognized in fixing rates in such districts.

The Gas Company's estimate of sales for the year ending June 30, 1916, amounting to 21,874,800 cubic feet, appears fair and reasonable considering this general decrease in consumption. Increasing this amount by 25 per cent. for loss, gives a total of 29,166,400 cubic feet of gas to be purchased by the company at wholesale.

From the evidence submitted we further find that the Gas Company's overhead expenses should be apportioned on the basis of 65 per cent. for Telford and 35 per cent. for Maricopa.

The following estimate of operating expenses chargeable against Taft, for the year ending June 30, 1916, was submitted by the Gas Company:

Gas purchased		\$2,041.65
Transmission expense	\$448.00	
Distribution expense	3,013.54	
Commercial expense	2,323.61	
Salaries and expenses of general officers	3,400.61	
Miscellaneous & Gen. Expense	<u>397.59</u>	9,583.35
Taxes	612.24	
Insurance	188.98	
Uncollectible accounts	<u>536.37</u>	<u>1,337.59</u>
Total Operating Expenses		\$12,962.59

The above includes an item of \$380, covering the estimated cost of inspecting and repairing the Company's mains in order to decrease the losses. Considering the fact that we are basing our estimates upon a 25 per cent. loss, we do not think that the company should be credited with more than one-half of this amount.

The above estimate is based upon the Gas Company's present expense, which includes, among other items, a salary of \$3,600.00 per year to its president and manager; directors' fees amounting to \$560.00 per year and a secretary's salary of \$360.00 per year.

Considerable evidence was introduced as to the salaries and wages in the oil fields being higher than in other localities, and evidence was also introduced to the effect that the manager's salary was too large. From all the testimony introduced

we find that this salary is excessive, especially when taking into consideration the fact that the Gas Company's business is decreasing and that its total revenue will not exceed \$25,000.00 per year. Under the circumstances we find that a salary of \$225.00 per month for the Gas Company's manager is at least liberal and that the Gas Company should not pay more than this amount. We further find that the payment of \$360. per year for the fees of the Gas Company's three directors is entirely unwarranted---the more so as the Gas Company is a close corporation, consisting of only three stockholders, each one of whom is a director, including Mr. J. G. McDonald, who receives a salary as the company's manager. We find that not more than \$30.00 per year should be allowed for directors' fees. We furthermore find that no allowance should be made for a salary for the Gas Company's secretary, as all the duties of the secretary could easily be attended to by the manager or one of the other employes of the Gas Company; for this company at present has less than 700 consumers, and to handle this business it employs in its office force a collector and a bookkeeper or clerk in addition to its general manager.

We find accordingly that the following reductions in the Gas Company's expenses should be made:

Reduction in manager's salary	\$900.00 per year;
Reduction in Directors' fees	330.00 per year;
Elimination of secretary's salary	<u>360.00</u> per year;
TOTAL	\$1,590.00 per year.

Of this amount 65 per cent, or \$1,033.50, is chargeable to the Taft expenses.

Revising the former estimate in conformity with the above corrections, we have the following estimate of expenses for the coming year:

Gas purchased		\$2,041.65	
Transmission, distribution, Commercial and general & Miscellaneous expenses	\$9,583.35		
Less reduction in salaries	1,033.50		
Less half cost of repairing system	<u>190.00</u>	8,359.85	
Insurance		<u>188.98</u>	
Total operating expenses, less taxes		\$10,590.48	
Interest at 10 per cent.	\$1,859.25		
Depreciation	<u>1,361.60</u>		<u>3,220.85</u>
Sub-Total			\$13,811.33
Increased 5-1/4 per cent. for taxes			<u>766.69</u> \$14,579.02
Uncollectible accounts			<u>480.00</u>
			<u>\$15,059.02</u>
		T o t a l . . . . .	

The estimate of uncollectible accounts has been increased over that for the year ending June 30, 1915, owing to the peculiar conditions existing in the City of Taft, where the population is changing continually and where, according to the testimony, the loss from old customers is extremely heavy and steadily increasing.

We also find in this particular case that the interest allowed the Gas Company upon its investment should be increased from 9 per cent. to 10 per

cent, owing to the fact that in all probability the sales of gas will continue gradually but steadily to decrease, until a point may be reached in which it will be difficult for the company to earn more than its operating expenses.

From all the evidence introduced we estimate that if the following rates were established in Taft, the Gas Company's receipts for the year would be approximately as follows:

	Rate	Consumption	Amount of Gas	Revenue
First 7,500 cu. ft.	75¢	52%	13,671,750	\$10,254.11
Next 17,500 cu. ft.	60¢	16 1/2%	3,609,375	2,165.62
Next 50,000 cu. ft.	45¢	14 %	3,062,500	1,378.13
Next 75,000 cu. ft.	35¢	7 %	1,551,200	535.92
				<u>\$14,333.78</u>
Excess due to minimum ( \$1.00 per meter per month )				749.84
Gross income				\$15,083.62
Estimated total charges				\$15,059.02

While we shall grant applicant part of the increase it has asked for, we want it to understand that we are by no means satisfied with the manner in which it is running its plant. Other companies are furnishing natural gas under more or less similar conditions at much lower rates than those herein established, and we wish to warn applicant that if any such company should apply for a certificate of public convenience and necessity to enter the territory now served by applicant, and should offer to furnish gas at a material reduction and should show that it could make a reasonable profit in so doing, we could not deny the application.

#### ORDER

WEST SIDE GAS COMPANY having applied for an order authorizing an increase of its rates for natural gas in the City of Taft, Kern County, and a public hearing having been held on said application, and the matter having been submitted and being now ready for decision;

The Commission hereby finds as a fact that the applicant is entitled to have its rates increas-



ed and that the rates hereinafter set forth and established are just and reasonable rates to be charged by the West Side Gas Company for natural gas furnished to its customers in the City of Taft. Basing its conclusions upon the foregoing findings of fact and on other findings which are contained in the Opinion which precedes this order,

IT IS HEREBY ORDERED that West Side Gas Company be, and the same is hereby, authorized to establish the following rates to be charged to its customers in the City of Taft for natural gas furnished at a pressure of from one (1) to one and one-half (1-1/2) pounds per square inch above atmospheric pressure, said rates to be applicable to all consumers and to become effective November 1, 1915;

First	7,500 cu.ft. per month	75¢ per 1,000 cu.ft.
Next	17,500 cu.ft. per month	60¢ per 1,000 cu.ft.
Next	50,000 cu.ft. per month	45¢ per 1,000 cu.ft.
Next	75,000 cu.ft. per month	35¢ per 1,000 cu.ft.

Minimum charge \$1.00 per month per meter.

AND IT IS FURTHER ORDERED that West Side Gas Company, within thirty days from the receipt of a certified copy of this Order, file with this Commission said rates so established in compliance with this Order.

Dated at San Francisco, California, this 23rd day of October, 1915.

May Fletcher  
W. J. ...  
...  
Edward W. Edgerton  
Frank R. ...

Commissioners.