

Decision No. _____

ORIGINAL

Decision No. 2214

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

In the matter of the application)
 of TRADERS OIL COMPANY for auth-)
 ority to increase rates or dis-)
 continue service.)

ApplicationNo. 2066.

M. V. McQuigg for applicant.

James M. Burke, of Laberson, Burke
 and Lamberson, City Attorneys of
 Coalinga, for City of Coalinga.

G. W. Satchell for Coalinga Gas and
 Power Company.

Morris M. Ferguson for Coalinga Pipe
 Line Company.

BY THE COMMISSION.

O P I N I O N

This is an application of TRADERS OIL COM-
 PANY, a corporation, for authority to increase the
 rate charged by it to the Coalinga Pipe Line Company
 or discontinue service.

Applicant is the owner of the Southeast Quar-
 ter of the Southeast Quarter (SE1/4 of SE1/4) of Sec-
 tion Thirty-five (35), Township Twenty (20) South.

Range Fourteen (14) East M. D. B. & M. in the Coalinga Oil Fields, upon which is located a certain gas well drilled by one B. I. Potter, at that time a lessee of Traders Oil Company.

During the tenancy of Mr. Potter, five shallow oil wells were drilled, which yielded oil in such small amounts that they were unprofitable. In the fifth well, while drilling for oil, a gas well was brought in on or about the 18th day of October, 1913, at a depth of 508 feet. The open flow capacity of this well was approximately 3,000,000 cubic feet per day. In March, 1914, the shut-in pressure was 80 pounds per square inch. The estimated delivery under 20 pounds discharge was from 100,000 to 150,000 cubic feet per day.

For the purpose of disposing of this gas, Mr. Potter organized the Coalinga Pipe Line Company, which was incorporated under the laws of this State on October 27, 1913, for the purpose of owning, operating, leasing and controlling one or more pipe lines to carry on the business of conveying oil, gas or other products or by-products of the oil or gas which may be conveyed by pipe line, and for the purpose of marketing and selling same.

The authorized capital stock consists of 20,000 shares with a par value of \$1. each. No shares have been issued except one to each of the three directors. From the testimony in this case it appears that the present owners of the Coalinga Pipe Line Com-

pany did not invest any money whatever in the venture. The capital for the construction of the gas line was furnished by the same parties who financed Mr. Potter's oil operations. The Coalinga Pipe Line Company is only another legal entity for Mr. Potter and his associates as lessees of the Traders Oil Company.

On November 6, 1913, the lessees of the Traders Oil Company entered into a contract with the Coalinga Pipe Line Company, under the terms of which contract the lessees agreed to sell, and the Coalinga Pipe Line Company agreed to buy, all the natural gas produced on the tract of land hereinabove described at a rate of eight cents per thousand cubic feet for all gas sold to consumers at a rate of 25 cents or more per thousand cubic feet, and at a rate of 4-1/2 cents per thousand cubic feet for all gas sold to consumers at less than 25 cents per thousand cubic feet. The contract further provides that Coalinga Pipe Line Company will construct a two and one-half (2-1/2) inch pipe line to Coalinga, install a compressor, an electric plant of the necessary capacity, and all service pipes to all consumers within a radius of five miles from the well in all instances where the gas bills of the proposed consumers will pay for the cost of installing said service within a period of one year.

After having received a certificate of public convenience and necessity from this Commission, Coalinga Pipe Line Company proceeded to construct a

2-1/2 inch pipe line 17,500 feet in length, and transmit the gas to the City of Coalinga, where it sold its gas at wholesale to the local distributing company at a rate of 30 cents per thousand cubic feet. The requirements of the distributing company average about 800,000 cubic feet per month, corresponding to a maximum daily out-put of 35,000 cubic feet. At the present time the well can produce but slightly in excess of this amount.

The Lessees of the Traders Oil Company, soon after the execution of the contract of the Coalinga Pipe Line Company and the distributing company at Coalinga, failed to fulfill the drilling requirements of their lease. It thereupon forfeited the lease and Traders Oil Company took possession of the property and continued to serve the Coalinga Pipe Line Company with gas for approximately six weeks, when, discovering that the gas might be used to greater advantage for their own fuel purposes, they thereupon threatened to discontinue service to the Coalinga Pipe Line Company on or about December 4, 1915. Upon being advised in the matter, the Commission informed the officials of Traders Oil Company that they could not legally discontinue gas service without having been granted permission to do so after a formal hearing before the Railroad Commission.

Traders Oil Company desires to use gas from the well in question for fuel purposes at their water pumping plant, which plant is the only supply of water for their extensive oil operations in other sections of the Coalinga Field. The gas could undoubtedly be put to a use more profitable to the applicant herein than the one to which it is now being put.

At the hearing in Coalinga on February 16, 1916, and at the hearing in Los Angeles on February 24, 1916, applicant failed to submit any evidence in support of his application other than statements that the gas was most valuable to the Traders Oil Company for fuel purposes, and that they should, therefore, be allowed to discontinue the service or to raise the rate so that the net return on the gas sales would equal the amount expended by them for fuel oil at their water plant. Applicant's lessee through its contract with the Coalinga Pipe Line Company and the contract of the latter company in turn with the Coalinga Gas and Power Company has dedicated the gas from this well to the public use.

All three of these companies are beyond question public utilities, as defined by the Public Utilities Act. Although applicant became a public utility through the circumstances hereinabove set forth rather than choice, this Commission cannot be expected to relieve it of its public utility obligations or allow the discontinuance of the supply of the valuable commodity to the inhabitants of the City of Coalinga by the bare statement that the owners of such commodity desire the same for their own use.

In regard to the raise in rates, applicant has not shown that the desired increase is justified. Evidence has not been introduced upon which the Com-

mission can determine either the cost or value of this service. In order to determine whether or not an increase in rates is justified, the Commission should be supplied with information regarding the original cost, present value, probable life of the physical property, expense of operation and further details regarding the value of this service both to Traders Oil Company and to the present recipients.

The Commission would not be justified in basing natural gas rates on the fluctuation price of fuel oil. At the hearing certain facts were developed, which, while unnecessary to the decision herein, should be noted. They are as follows:

First, it is not at all uncertain but that the well can be cleared of water and made to produce sufficient gas for the requirements of the City of Coalinga, and also supply gas to the applicant for its fuel purposes. Such a condition would obviate any necessity for discontinuance of service. Applicant herein could undoubtedly materially reduce his fuel cost for pumping by the installation of more efficient equipment.

Lastly, testimony in the case indicated that the Coalinga Pipe Line Company, with an investment of approximately \$3,000., is deriving a revenue therefrom of approximately \$2,400. per annum. It may be that they are receiving more than their just share from the sale of the outputs of the gas well on the applicant's property. However, this matter is not now before the Commission.

We are of the opinion that applicant has not shown either a right or a necessity for discontinuing this service, nor has it supplied the Commission with sufficient information to enable it to determine whether or not an increase in rates is justified.

If applicant is of the opinion that sufficient gas can not be obtained for both uses, or that they are entitled to an adjustment or raise of rates, it may again bring this matter before the Commission and present evidence along the lines hereinabove suggested.

O R D E R

TRADERS OIL COMPANY having filed with this Commission its application for authority to increase rates or discontinue service.

And a public hearing having been held and applicant having failed to give sufficient proof of the necessity for or right to a discontinuance of service or an increase in rates.

IT IS HEREBY ORDERED that this application be, and the same is hereby, dismissed without prejudice.

Dated at San Francisco, California, this 20th day of March, 1916.

Max Thelen
H. J. Ireland
W. G. ...

Commissioners.