

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

BEFORE THE RAILROAD COMMISSION OF THE  
STATE OF CALIFORNIA

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In the Matter of the Application of  
SANTA MARIA GAS AND POWER COMPANY,  
a corporation, for an order preliminary  
to the issuance of a certificate of  
public convenience and necessity allow-  
ing said company to exercise rights and  
privileges under a franchise to be  
secured.

Application  
No. 1485.

MIDLAND COUNTIES PUBLIC SERVICE  
CORPORATION,  
a corporation,

Complainant,

vs.

Case No. 747.

SANTA MARIA GAS AND POWER COMPANY,  
a corporation,

Defendant.

Geo. H. Whipple and Allen L. Chickering,  
of Chickering & Gregory, and Charles  
A. Katzer for Santa Maria Gas & Power Co.,  
W. A. Sutherland, of Short & Sutherland,  
and Paul M. Gregg for Midland Counties  
Public Service Corporation.

DEVLIN, Commissioner.

O P I N I O N

On January 6, 1915, Midland Counties Public  
Service Corporation, hereinafter designated Midland Cor-  
poration, filed its complaint herein against the Santa  
Maria Gas and Power Company, hereinafter designated Santa  
Maria Company, and thereafter, to-wit: on March 9, 1915,  
filed its amended complaint in the same matter. The

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defendant, on February 3, 1915, filed its answer to complainant's original complaint, and on April 6, 1915, filed its answer to complainant's amended complaint.

The amended complaint alleges in effect,

First: . That complainant is engaged in the business of manufacturing artificial gas and in supplying such commodity for domestic and other purposes to the City of San Luis Obispo and to the inhabitants thereof and to certain inhabitants of the territory immediately adjacent to the suburbs of said City of San Luis Obispo, under proper legal authority;

Second: That the defendant is, and for a long time prior to the filing of said amended complaint has been engaged in the business of selling and furnishing natural gas for domestic and manufacturing purposes in the counties of San Luis Obispo and Santa Barbara;

Third: That defendant is engaged in extending its main pipe line for the transmission of natural gas to the territory immediately adjoining the City of San Luis Obispo for the purpose of supplying natural gas within the territory served by complainant with artificial gas;

Fourth: That the said City of San Luis Obispo and said adjacent territory served by complainant with artificial gas is not served with either natural or artificial gas for any purpose by any other public utility of like character, and that said territory is now fully covered by the plant and system of complainant;

Fifth: That defendant intends to proceed at once to construct mains and pipe lines in the City of San Luis Obispo and in the territory adjacent to said City

served by complainant, without first procuring from the Railroad Commission a certificate of public convenience and necessity;

Sixth: That complainant desires and proposes to supply natural gas to its consumers, and has requested defendant to fix a rate at which defendant will supply natural gas to complainant at the city limits of said City of San Luis Obispo, but that defendant has failed, neglected and refused; and does fail, neglect and refuse to indicate to complainant any rate at which it will sell gas for the purposes aforesaid to complainant;

Seventh: That unless defendant furnishes natural gas to complainant at or near the city limits of the City of San Luis Obispo, which gas in turn would be supplied by complainant to its consumers in said City of San Luis Obispo, it will be necessary for complainant to make use of defendant's high pressure transmission lines for the purpose of conducting complainant's natural gas to the City of San Luis Obispo, or for complainant to itself construct a high pressure trunk line from the same source of supply to the said City of San Luis Obispo; and that such construction will involve great and unnecessary cost and expense to complainant; and that public convenience and necessity would be served by the use by complainant of the lines of defendant for the purposes mentioned.

Complainant asks that the Railroad Commission make an order requiring either, first, that the Santa Maria Company furnish complainant with natural gas at the city limits of the City of San Luis Obispo, or, second, that Santa Maria Company carry complainant's natural gas from the source

of supply to the City of San Luis Obispo.

On January 8, 1915, the Santa Maria Company made application, under the provisions of Section 50 (c) of the Public Utilities Act, for a preliminary certificate that public convenience and necessity require the exercise by it of certain rights and privileges under a franchise to be secured for the distribution of natural gas to the City of San Luis Obispo and its inhabitants.

The answer of the Santa Maria Company to complainant's amended complaint denies all the material allegations of the amended complaint, and alleges substantially the same matters as does the petition in Application No. 1485. By its said answer, defendant questions the jurisdiction of the Commission and asks for the dismissal of said complaint.

On April 29, 1915, Midland Corporation filed an answer to and protested against the granting of the said application of the Santa Maria Company, which said answer and protest admitted that the City of San Luis Obispo is within the territory rightfully entitled to enjoy the use of natural gas; and that said city is not now served with natural gas; but alleges that for more than two years prior to the filing of the application of the Santa Maria Company the Midland Corporation had been negotiating in good faith with the Santa Maria Company to the end that said City of San Luis Obispo and the inhabitants thereof should be served with natural gas by either the applicant or protestant; alleging further that negotiations were initiated by protestant and persistently carried on by protestant until December, 1914, during which month it became apparent to protestant that it would be impossible to reach the end sought by agree-

ment with applicant.

The Midland Corporation in its answer and protest recites the filing of its complaint in Case No. 747, the case hereinbefore referred to, and further alleges that its present plant for the manufacture and distribution of artificial gas at San Luis Obispo was acquired by it during the month of March, 1912, and that its plant and system at the time of its acquisition was fairly adequate for the purpose of supplying artificial gas to the said city and its inhabitants. Protestant further alleges that it has been its desire and intention ever since the acquisition of its said plant to furnish natural gas to said City of San Luis Obispo and to adapt its plant to such use as far as possible; and alleges that in the month of November, 1912, it entered into negotiations with the Santa Maria Company, reciting somewhat circumstantially details of such negotiations; and alleges that without any fault on its part said negotiations have failed. Protestant further alleges that if there is any reason for complaint on the part of the inhabitants of the City of San Luis Obispo concerning the adequacy of its artificial gas served in said city, as set forth in Santa Maria Company's application, it is due solely and only to the delay incident to such negotiations and to the failure of the parties thereto to reach an agreement. Protestant denies that the distribution of natural gas is competitive with the distribution of electricity, and alleges that its plant and system now in use in San Luis Obispo can be used, and protestant intends to use the same in the distribution of natural gas in said city, and that when so used said plant will adequately supply said city with natural gas; that

it has invested in said plant and system a sum in excess of \$100,000, and that if applicant is permitted to exercise in said city said franchise to distribute natural gas therein, that protestant will be forced to abandon its plant and system, and that the exercise of said franchise by applicant will result in irreparable injury to protestant and to the consumers of natural gas of said City of San Luis Obispo.

The first hearing on these matters was held at San Luis Obispo on April 29th and 30th, 1915, at which time it was stipulated that Application No. 1485 and Case No. 747 be consolidated, and thereafter adjourned hearings were held at San Francisco covering several days. After the introduction of all the evidence, briefs were filed by the respective parties, the last brief being filed November 5, 1915.

The evidence introduced by the parties embraced an unusual amount of detail, including valuations, estimates, maps and exhibits of various kinds, all of which exhibits have been carefully checked by the Commission's Engineering Department, and thoroughly considered.

During the hearings and in its brief Santa Maria Company devoted itself largely to the point raised by its answer that the Commission has no jurisdiction of the complaint in Case No. 747, claiming that it has not at any time and does not now sell natural gas to any city, town, village, private corporation or individual in this State for the purpose of resale, but only sells such gas to consumers of the same. That the Santa Maria Company has not ever engaged in the selling of gas to any person, firm or

corporation for the purpose of resale, was, in my opinion, thoroughly established. At the hearing the following question was propounded to Mr. Easton, secretary and manager of the Santa Maria Company:

"Commissioner Devlin: Has the company at any time since your connection with it sold gas to any person firm or individual or anyone for the purpose of resale?

"Mr. Easton: It has not."

And later:

"Commissioner Devlin: Are you going to produce anyone who has been familiar with the methods of the company from its organization, Mr. Whipple, or will that be disputed? Do you know whether or not they have ever been engaged in that business?

"Mr. Sutherland: We are not making that contention that they have ever been engaged except as Mr. Easton says and those negotiations were carried on looking to that."

The negotiations referred to by Mr. Sutherland were the negotiations for the purchase by the Santa Maria Company of the Midland Corporation, hereinafter referred to.

In my opinion it is extremely doubtful if there has been such a dedication of the facilities, commodity or service of the Santa Maria Company to any use which contemplates the resale by a competitor. It appears to me, however, that the facts herein presented and hereinafter discussed are such that entitle Santa Maria Company to a certificate of public convenience and necessity, and for that reason it is unnecessary to pass upon the question of the extent of its dedication of its facilities, commodity and service.

Inasmuch, however, as counsel for Midland Corporation alleged that the case of Tulare County Power Company

vs. San Joaquin Light and Power Corporation, No. 781, Decision 2260, of this Commission presents the same question as is raised by Santa Maria Company concerning the dedication of its facilities, it might be said that there is a marked distinction between these two cases. In the Tulare case the question involved was whether or not the San Joaquin Company, by reason of the failure of the Tulare Company to pay for service under a contract previously entered into, could discontinue service. There was no question raised either in the pleadings or at the hearing as to the jurisdiction of the Commission on the grounds alleged by Santa Maria Company. On the contrary, the San Joaquin Company, in paragraph 4 of its answer, after a recital of the default on the part of the Tulare Company, alleges:

"upon payment of which sum defendant will voluntarily resume service of electric energy to the complainant under the terms of said contract."

For the same reasons that make it unnecessary to pass finally upon the question of the dedication of the facilities, commodity and service of the Santa Maria Company for the sale of its commodity for the purpose of resale, I think it unnecessary to pass upon the objection alleged by the Santa Maria Company that its character of business and method of conducting same is such as would forbid a finding that it has held itself out to furnish distribution facilities for the conveying of natural gas as a public service as distinguished from its business of conveying natural gas for delivery to its own consumers.



On January 4, 1915, two days before the filing of the Midland Corporation's complaint herein, Santa Maria Company applied to the City of San Luis Obispo for a franchise authorizing it to supply natural gas to said City and its inhabitants, and thereafter, on April 19, 1915, the City Trustees finally passed an ordinance granting such franchise to Santa Maria Company; the application thereafter became and now is one for the issuance of a certificate of public convenience and necessity after franchise obtained.

The questions raised by the complaint of Midland Corporation, asking an order of this Commission directing Santa Maria Company to deliver the gas at a rate to be fixed by this Commission, or that complainant be permitted to use its high pressure trunk lines for the purpose of transmitting natural gas, owned by the complainant, to the City of San Luis Obispo upon a reasonable compensation to be fixed by the Commission, include not only the legal issues to which attention has heretofore been directed but also include question of the reasonableness and propriety of such orders under existing conditions. In the latter respect they are very closely related to the questions presented in the application of Santa Maria Company for certificate of public convenience and necessity.

This Commission has heretofore, notably in the cases of Pacific Gas and Electric Company vs. Great Western Power Company, (Opinions and Orders of the Railroad Commission, Vol. 1, page 203), and In the matter of the Application of Oro Electric Corporation, etc., (Opinions and Orders of the Railroad Commission, Vol. 2, page 748), emphatically declared in favor of the policy of affording protection to utilities in the territory they are serving

when such utilities are rendering efficient service at proper rates and are fulfilling adequately the duties which they owe to the public. In the decision of the Great Western Power case we find this language:

"It is certainly true that where the territory is served by a utility which has pioneered in the field, and is rendering efficient and cheap service and is fulfilling adequately the duty which, as a public utility, it owes to the public, and the territory is so generally served that it may be said to have reached the point of saturation as regards the particular commodity in which such utility deals, then certainly the design of the law is that the utility shall be protected within such field; but when any one of these conditions is lacking, the public convenience may often be served by allowing competition to come in."

And again in the same decision the Commission says:

"If however, a territory is completely served and the utility has, to the best of its ability, given fair treatment to its patrons, as already intimated, this Commission will be slow to permit a competitor to come into its territory."

In the Oro Electric case the Commission states the same rule in the following language:

"..... a wise public policy demands that utilities which are doing their full duty to the public shall be treated with fairness, justice and liberality, and they shall receive such protection to their investment as they may deserve...."

It was not, however, the purpose of the Commission in the cases last mentioned to declare or imply that the first utility in the field would be protected against competition simply because it pioneered in that particular territory, regardless of the performance of its duties and obligations to the public; on the contrary, in the same decisions the Commission with emphasis served notice on utilities that they assumed the risk of competition under authority of this Commission by neglecting to perform their full duties as such utilities.

The following language, the meaning of which is unmistakable, was used in the Great Western decision:

" . . . . to all new utilities we shall likewise hold out the incentive that on the discovery by them of territory which is not accorded reasonable service and just rates, they may have the privilege of entering therein if they are willing to accord fair treatment to such territory."

In the Oro decision we find this language:

" . . . . if another utility can, by reason of superior natural advantages or patented processes or other means, give to the public a service as good as the existing utility, at rates materially less, the interest of the public must be deemed paramount and the new utility must be given an opportunity to serve the public."

The policy announced in these two decisions, which might well be called the leading cases decided by this Commission touching the questions involved, was, in the Oro case declared to be the principles which would be followed in future cases in as far as they are applicable to the facts of those cases.

Far from departing from or modifying the policies, rules or principles declared in the two cases referred to, I think these should be, and by this opinion and the order hereinafter recommended, are reaffirmed.

Another very important factor bearing upon the determination of whether or not an existing utility has performed its full duty within the rules above quoted, is the period during which the existing utility has been remiss in its duties and the time of its endeavors to make amends to the public by adequately performing its duties.

The attitude of this Commission in this respect can not be better stated than by again quoting from the

two decisions above referred to. In the Great Western decision the following announcement was made:

"Rather, do we announce the rule that only until the time of threatened competition shall the existing utility be allowed to put itself in such a position with reference to its patrons, that this Commission may find that such patrons are adequately served at reasonable rates."

And on the same point the Oro decisions speaks as follows:

"On the other hand, the California Commission, unless particular circumstances call for a different method of handling the problem, looks to the existing utility as of the day when the newcomer knocks at the door. If the existing utility is at that time found not to be doing its duty to the public, the newcomer is permitted to enter."

And again the Oro decision declares:

"Furthermore, the Commission held in that case that it would judge the two utilities as of the day when the new utility filed its application with this Commission, so that a utility desiring to be protected in the way of competition must do its full duty to the public before and not after the newcomer knocks at the door."

This brings us to the application of the rules and principles previously declared by this Commission to the particular facts involved in the application and case before us, in this regard.

Some thirty or forty witnesses, residents of the City of San Luis Obispo, were called by Santa Maria Company and all testified in effect that the gas service of the Midland Corporation was most unsatisfactory and had been so since 1912. These witnesses comprised consumers of the gas furnished by the Midland Corporation for domestic and commercial purposes. Not a single witness was produced by the Midland Corporation to testify to satisfactory or adequate service. Counsel for the Midland Corporation in

effect admitted at the hearing that the service had been poor, and again in its brief we find this language:

"It can not be denied that for some months prior to July, 1914, the artificial gas service of the Midland Counties Public Service Corporation in the City of San Luis Obispo had been allowed to deteriorate."

Midland Corporation did, however, offer evidence that during the month of July, 1914, Mr. E. B. Walthal, one of its assistant general managers, while in San Luis Obispo on other business discovered that complaints were being made to the local office concerning the gas service rendered, and that counter to instructions the local manager was making no report whatever to the general office of the company; that an investigation was at once instituted and it was found that the local manager had not only failed to report the complaints but had apparently made no effort to maintain any standard of efficiency; that the local manager was thereupon discharged and a capable gas expert was sent to San Luis Obispo to correct the trouble.

Beginning in the month of July, 1914, and continuing until October of the same year, Midland Corporation did some work on its San Luis Obispo system. The condition of the Midland plant at San Luis Obispo in July, 1914, was undoubtedly rapidly approaching that of intolerable and had called forth very general and very emphatic protest from the consumers. While the Company did make some effort to improve conditions, it might well be said that the improvement was comparatively small considering the magnitude of the work necessary to give proper service.

There is no question whatever in my mind that the evidence clearly establishes the fact that the service supplied by the Midland Corporation to its consumers in San Luis Obispo was from the time of taking over the property in 1912 up to July, 1914, such as to merit the vigorous protest it received from its consumers and that the improvement brought about by the work performed between July and October, 1914, fell far short of putting the plant in such a condition as would warrant the statement that it was performing its full duty to its consumers.

The Midland Corporation, while practically admitting its failure to give such service as is imposed upon it by law, would avoid the responsibility for its default in this regard by reason of negotiations which had been entered into between the Santa Maria Company and the Midland Corporation looking to the purchase by the former company of the gas system of Midland Corporation at San Luis Obispo city.

The local gas manufacturing plant and distribution system in San Luis Obispo, formerly owned by the San Luis Gas and Electric Company, appears from the records of the Commission to have been acquired in March, 1912, by the Coalinga Water and Electric Company, which in turn was reorganized as the Midland Counties Public Service Corporation in September, 1913, under the same ownership. It appears from the evidence that the predecessor of the Midland Corporation had, in 1912, instituted negotiations with the Santa Maria Company, acting through Mr. Easton, for the sale of gas by the latter company to the Midland's predecessor, to be resold by the latter in

San Luis Obispo. These negotiations, however, never got beyond the point of drafting a contract which was never executed and no gas was ever sold thereunder. Thereafter, and between 1912 and up to a short time before the filing of the application of the Santa Maria Company herein, other negotiations were carried on between the two companies, which are parties hereto, the propositions involved in such negotiations being as follows:

(a). That the Midland Corporation purchase gas at wholesale from Santa Maria Company for distribution in San Luis Obispo;

(b). Negotiations looking to the purchase of all of the stock of the Santa Maria Company;

(c). Proposition of leasing to the Santa Maria Company the gas plant and system in San Luis Obispo;

(d). The proposition of selling to the Santa Maria Company the gas plant and system in San Luis Obispo.

A great deal of testimony was introduced by both parties bearing upon these various negotiations, and unquestionably the position of the Midland Corporation is, in these cases, that the Santa Maria Company, through its representatives in these various negotiations, had led the Midland Corporation and its owners to believe that terms would be agreed upon resulting in a lease or sale of the Midland's San Luis Obispo plant to the Santa Maria Company. Considerable evidence was also introduced as to the price at which the Midland Corporation offered to sell and the price which Santa Maria Company was willing to pay.

What makes these negotiations pertinent in these cases is that the Midland Corporation, in effect, offers as an excuse for its failure to perform its duty to its patrons at San Luis Obispo the fact that is be- ✓ lieved that a sale or lease would be consummated, and the strong insinuation that the Santa Maria Company was delaying the negotiations and really and in fact had no intention of consummating same; and that said negotiations were carried on by said Santa Maria Company with the apparent purpose of endeavoring to agree upon the price of the properties of the Midland Corporation, solely to enable Santa Maria Company to complete its trunk line from the oilfields to the town limits of San Luis Obispo.

I deem it to be of no special consequence to this Commission in determining the questions involved herein as to whether or not the price offered, even tentatively, by the Santa Maria Company for the Midland properties at San Luis Obispo, was sufficient or otherwise. Neither do I consider it necessary to review at length the various negotiations covering a period from 1912 to the end of 1914. To do so would probably be to repeat the history of many similar transactions where keen business men are dealing at arms-length with each other, each side endeavoring to drive as good a bargain as possible, and it might fairly be said that the history of the negotiations in this particular matter were not inconsistent with the rules of business governing such transactions. That the Santa Maria Company was busily engaged in extending its trunk line from the oilfields to San Luis Obispo was apparent to the Midland



Corporation; that it was the purpose and policy of the Santa Maria Company to endeavor to market its gas at San Luis Obispo must have been equally apparent; that the Midland Corporation would deduce from these circumstances the conclusion that in the event of a failure of the negotiations for lease or sale that the Santa Maria Company would endeavor to market its product in San Luis Obispo, independently of the Midland Corporation, it seems to me to be obvious. From this follows the conclusion that when the Midland Corporation neglected to perform its duty to the community of San Luis Obispo city, which it in effect admits it did, it did so charged with a notice of the policy of this Commission and with a knowledge that the demands of the public for a proper and adequate service would be the all important factor in a contest between the two companies, which the Midland Corporation must have felt would ultimately come, in the event of failure of such negotiations. When, under these conditions, the Midland Corporation did default in its duties to the community, it did so at its hazard and can not now be properly heard to complain. This Commission would, I think, be unwarranted in accepting as a sufficient excuse that offered by the Midland Corporation, namely, "we expected to arrive at terms that were satisfactory to us. We risked our right to prevent competition by failing to perform our full duty to the public rather than make such expenditures as were proper and necessary to fulfill our obligations." There may, in some instances, be sufficient excuse for a utility's default in the performance of its full duty, but it seems that in the present instance sufficient excuse for a manifest default does not exist. To announce the rule contended for by the Midland Corporation would, in my opinion, be subordinating the rights of the public to proper and adequate service to what the serving utility conceives to be its proper basis of terms in a contemplated sale. In my opinion, the rights of the public

adequate service  
to demand and receive from the utility/are superior and should  
be so recognized by an utility in the conduct of its negotiations.

Santa Maria Gas and Power Company was organized on January 7th, 1907, by Mr. James F. Goodwin, manager of the Pinal Dome Oil Company and the Brookshire Oil Company, Mr. Paul O. Tietzen, Mr. M. Thornburg, Mr. Thomas B. Adam and Mr. John E. Walker. During the year previous, Mr. James F. Goodwin had secured, on June 4th, a franchise from the County of Santa Barbara, and on October 1st a franchise from the City of Santa Maria permitting the construction and operation of pipe lines for conveying oil and gas from the Santa Maria Oil Fields to Santa Maria and certain other districts in Santa Barbara County. The object in organizing the Santa Maria Gas and Power Company was to take over the franchise theretofore obtained by Mr. James F. Goodwin, and also to acquire a contract which Mr. Goodwin was to enter into with the Brookshire Oil Company, of which he was the manager.

On February 16th, 1907, Mr. James F. Goodwin entered into a contract with the Brookshire Oil Company for all the natural gas produced by that company in excess of that necessary for its own operation for a period of ten (10) years at a flat price of Fifty (\$50.00) Dollars per month. This contract was assigned by Mr. Goodwin to the Santa Maria Gas and Power Company, and in November 1912, was modified by a second contract in which the Oil Company reserved the right to extract

from the gas, before delivery to the Santa Maria Company, all condensable hydro-carbons. Delivery of gas is to be made by the Oil Company at not less than 100 pounds pressure, and the Santa Maria Company agrees to take not less than 2,000,000 cubic feet per month for a period of ten years from and after February 15th, 1917, at a price of five cents per 1,000 cubic feet based on an eight ounce pressure. The Santa Maria Company is given an option on all the gas produced by the Oil Company, but reserves the right to sell to other persons any excess gas not required by the gas company.

During March 1907, the transmission pipe line of the Santa Maria Company was completed from the properties of the Brookshire Oil Company to the City of Santa Maria, and gas was turned into the distribution mains in Santa Maria on April 3rd, 1907. During the first month's operation thirty consumers were served with natural gas.

In April 1909, a six inch pipe line was constructed from the properties of the Pinal Dome Oil Company to the compressing station of the Santa Maria Company, and a contract entered into for the purchase by the latter from the former of natural gas produced by the Oil Company. On November 22nd, 1912, a new contract was entered into between the Santa Maria

Company and the Pinal Dome Oil Company for the purchase and sale of all natural gas produced by the Oil Company in excess of that required for its own use, for a period of twenty years from September 1st, 1910. Provision is made in the contract that the Santa Maria Company shall take, provided that the Oil Company can make deliveries, a minimum of 2,000,000 cubic feet per month from and after September 1st, 1915, and the Santa Maria Company is given prior right to all of the gas produced by the Oil Company. The Oil Company reserves the right to extract all liquifiable hydrocarbons from the gas before delivery to the Santa Maria Company, and the latter agrees to pay to the Oil Company for the gas purchased, \$100.00 per month to September 1st, 1915, and thereafter at the rate of 5 cents per 1,000 cubic feet based on an eight ounce pressure.

On July 14th, 1911, Mr. R. E. Easton entered into a contract with the Union Oil Company of California for the purchase by Easton from the Oil Company of all of the natural gas which Easton required or may require for distribution and sale in San Luis Obispo and Santa Barbara Counties. The minimum amount of gas which Mr. Easton was to take under the contract was 2,000,000 cubic feet per month, exclusive of any gas delivered by Easton

to the Oil Company. The Oil Company reserved the right to such gas as it required for its own operations and also the right to extract, before delivery, any condensable hydro-carbons which the gas may contain as it comes from the wells. This contract was later assigned to the Santa Maria Gas and Power Company, and during September 1911, the Santa Maria Company extended its field lines to the properties of the Oil Company for receiving the gas covered by the contract.

Having secured an adequate supply of natural gas, the Santa Maria Company, during the summer of 1911, extended a four inch high pressure gas line to the town of Betteravia where the Pinal Dome Oil Company's refinery is located, and from Betteravia a two and one-half inch line was extended six and one-half miles to Guadalupe.

On August 9th, 1911, the Santa Maria Company secured its San Luis Obispo County franchise.

In December 1911, construction work was commenced on the four inch high pressure line from Santa Maria across the Santa Maria River into San Luis Obispo County. The river crossing at this point laid at a depth of sixteen feet in the river sands, deserves special mention due to the fact that it has withstood since its installation, two of the most severe floods and high water conditions in the

history of Santa Barbara and San Luis Obispo Counties. The last of these high water periods, scarcely a month past, was one of the most severe tests to which any structure could be subjected under operating conditions. The fact that the river crossing successfully withstood the extreme high water referred to, speaks well for the stability of the construction in general.

On August 7th, 1912, a franchise was secured by the Santa Maria Company for a gas distribution system in the City of Arroyo Grande, and in September of that year the four inch transmission line was completed from Santa Maria to that point and natural gas was being supplied to the inhabitants of Arroyo Grande. Along this line gas is also supplied in Nipomo and Los Berros and to the Union Oil Company's oil pumping plants at Santa Maria River Bank and Summit. Other large users of gas from this line were the Domestic Water Company and the Midland Counties Public Service Corporation at Santa Maria.

In September 1914, the Santa Maria Company proceeded with the construction of its high pressure line from Arroyo Grande to the City of San Luis Obispo, a distance of 11-1/2 miles. This line was completed to a point approximately 1-3/4 miles from

the city limits of the City of San Luis Obispo during the latter part of 1914, and for this latter distance the pipe was distributed preparatory to laying. This line consists of about 9,830 feet of 4 inch pipe and about 52,834 feet of 4-1/2 inch pipe.

Defendant presented the valuation of its properties by Mr. F. C. Millard in which both operative and non-operative physical properties are valued at \$299,280.28. According to the annual report of defendant to the Commission, the book cost or the actual investment in this same property is \$219,580.50. A comparison of these two reports is given in the following tabulation:

COMPARISON OF VALUATION AND BOOK COST

Santa Maria Gas and Power Company

	<u>F.C.Millard</u> <u>Valuation</u> <u>Feb.16,1915</u>	<u>Company's</u> <u>Book Value</u> <u>Dec.31,1914</u>	<u>Difference</u>
Real Estate:			
Non-Operative	\$ 12 700.00)		
Operative	5 620.00)	\$ 13 740.00	\$ 4 580.00
Buildings & Fixtures	14 358.25	8 923.41	5 434.84
Plant, Machinery and			
Equipment	37 895.40	34 437.65	3 457.75
Meters			
Consumers Meters	8 624.65)	9 880.63	385.98
Station Meters	870.00)		
Pipe Lines:			
Sta. Maria L.P. Town			
Line	30 018.94	15 846.60	14 172.34
Low Pressure Town			
Line, Nipomo	1 839.80	781.28	1 058.52
Low Pressure Town			
Line, Guadalupe	4 912.32	746.13	4 166.19
Low Pressure Town			
Line, Betteravia	1 840.68	102.53	1 738.15
Low Pressure Town			
Line, Arroyo Grande	7 028.54	3 953.99	3 974.55
Service Construction:			
(Services & Regulators)			
Santa Maria	9 569.64	7 838.06	4 252.37
Arroyo Grande	1 699.01	1 887.36	
Nipomo	462.35	352.29	
Guadalupe	1 347.21	1 886.44	
Betteravia	567.63	781.16	
On H.P. Lines	3 351.84		
H.P. Lines:			
Final Extension		5 224.20	25 609.52
Brookshire Extension		259.01	
Betteravia - Guadalupe			
Line		25 609.52	
Union Oil Extension		2 157.54	



COMPARISON OF VALUATION AND BOOK COST

Santa Maria Gas and Power Company (Cont'd.)

	<u>F.C.Millard</u> <u>Valuation</u> <u>Feb.16,1915</u>	<u>Company's</u> <u>Book Value</u> <u>Dec.31,1914</u>	<u>Difference</u>
H.P.Lines: (Cont'd.)			
River Line		\$ 9 291.43	
San Luis Service Const.	\$132 891.51	273.28	\$ 29 388.86
Telephone Line		20.36	
H.P.to Santa Maria		18 764.96	
San Luis No.1 Line		27 663.35	
San Luis No. 2 Line		24 720.35	
Field Collection			
System	10 481.35		
Automobiles,Etc.	2 557.50		2 557.50
Material & Supplies			
on hand.	<u>10 643.66</u>	* <u>4 439.06</u>	<u>6 204.60</u>
Total Tangible Values	\$299 280.28	\$219 580.59	\$79 699.69
Intangible Values		32 330.27	32 330.27
Grand Total	\$299 280.28	\$251 910.86	\$47 369.42

NOTE: \* From Balance Sheet.

The difference between the two figures exclusive of intangible capital, which is an arbitrary value attached to an obsolete contract for which stock was issued to one of the directors of the Company, is \$79,699.69 or 36.2 per cent in excess of the

actual investment. Although the Commission is not at this time particularly interested in the valuation of defendant's property except in order to determine the ability of said defendant to supply natural gas to the consumers of San Luis Obispo at reasonable rates, I feel that defendant should be warned against the presentation of such erroneous reports. This valuation cannot be accepted by the Commission.

The rates charged for natural gas in the territory served by the Santa Maria Company are as follows:

RATES FOR NATURAL GAS

SANTA MARIA GAS AND POWER COMPANY

Schedule No. 1

Santa Maria and Orcutt Road  
Domestic and Small Commercial Consumers:

\$1.00 per 1,000 cu.ft. No Discount.

Minimum Monthly Charge \$1.00

Schedule No. 2

Commercial and Industrial Consumers  
using between 20,000 and 35,000 cu.ft. per month

\$.60 per 1,000 cu.ft. No Discount.

Minimum Monthly Charge \$12.00

RATES FOR NATURAL GAS

SANTA MARIA GAS AND POWER COMPANY (Cont'd.)

Schedule No. 3

General  
Commercial and Industrial Consumers  
using in excess of 35,000 cu.ft. per month

\$ .50 per 1,000 cu.ft.      No Discount.

Minimum Monthly Charge    \$17.50

Schedule No. 4

General  
Schools and Public Libraries

\$ .75 per 1,000 cu.ft.      No Discount

Minimum Monthly Charge    75¢

Schedule No. 5

Free service to churches and places of worship.

Schedule No. 6

Special Boiler Rate  
Surplus Gas Only.

For monthly consumption up to 100,000 cu.ft.	20¢ per M.cu.ft
For monthly consumption from 100,000 to 250,000 cu.ft.	15¢ per M.cu.ft.
For monthly consumption from 250,000 to 1,000,000 cu.ft.	12½¢ per M.cu.ft.
For monthly consumption in excess of 1,000,000 cu.ft.	10¢ per M.cu.ft.

Minimum monthly Charge    \$40.00

Service may be discontinued at option of Gas Company  
upon reasonable notice. Consumer assumes all re-  
sponsibility for injury or damage to persons or  
property.

RATES FOR NATURAL GAS

SANTA MARIA GAS AND POWER COMPANY (Cont'd.)

Schedule No. 7.

General Service Santa Barbara and San Luis  
Obispo Counties Domestic and Small  
Consumers.

\$1.25 per 1,000 cu.ft. No Discount.

Minimum monthly charge \$1.25

Schedule No. 8

General  
Special Incubator Rates

\$ .75 per 1,000 cu.ft. No Discount.

Minimum Monthly Charge 75¢

Schedule No. 9

Special Rate Union Sugar Company  
Bettoravia  
Domestic and Commercial Consumers

\$ .45 per 1,000 cu.ft. No Discount.

No Minimum Charge

Schedule No. 10

General Gas Engine Service

For monthly consumption up to 300,000 cu.ft. 50¢ per M.cu.ft.  
For monthly consumption in excess of 300,000 cu.ft. 30¢ per M.cu.ft.

Minimum Monthly Charge 50¢

Street lighting service is supplied at a rate of \$2.50 per month per light.

A special rate of 75 cents per 1,000 cubic feet made to meat shops and butchers for the rendering of lard and tallow where the consumption is not less than 10,000 cubic feet per month.

RATE FOR NATURAL GAS IN ARROYO GRANDE  
APPLICABLE TO DOMESTIC AND SMALL COMMERCIAL CONSUMERS

Prior to August 1st, 1915

SANTA MARIA GAS AND POWER COMPANY

\$1.35 per M.cu.ft. for the first 2,000 cu.ft.per month  
\$1.00 per M.cu.ft. for all gas used in excess of  
2,000 cu.ft.per month.

Minimum Monthly Charge \$1.35

The present rates for artificial gas in effect in San Luis Obispo were fixed by city ordinance on June 27th, 1914, and are as follows:

2. Artificial gas furnished for any purpose:

For the first three thousand (3000) cubic feet consumed in one month, the rate shall be One and 25-100 (\$.25) Dollars for each one thousand (1000) cubic feet consumed. For gas consumed in one month in excess of three thousand (3000) cubic feet and not in excess of fourteen thousand (14,000) cubic feet, the rate shall be One and 15-100 (\$.15) Dollars for each one thousand cubic feet consumed. For gas consumed in one month in excess of fourteen thousand (14,000) cubic feet and not in excess of twenty-four thousand (24,000) cubic feet, the rate shall be One and 10-100 (\$.10) Dollars for each one thousand (1000) cubic feet consumed. For gas consumed in one month in excess of twenty-four thousand (24,000) cubic feet, the rate shall be One (\$1.00) Dollar for each one thousand (1000) cubic feet consumed. The minimum rate for gas furnished during any month shall be One (\$1.00) Dollar.

The above rates were filed by the Midland Counties Corporation as the effective rates in the City of San Luis Obispo from July 1st, 1914.

In connection with the matter of rates, I quote the following from the report of our gas and electrical engineer:

"It should be understood that the utility of a gas is, as is the case with other fuels, directly proportional to its heating value. This heating value is expressed in terms of British thermal units (B.T.U.) per cubic foot of gas, - a B.T.U. being that quantity of heat which is required to raise the temperature of one pound of water one degree

Fahrenheit and its mechanical equivalent is 778 ft.-lbs. of energy. A consumer who buys 1,000 cubic feet of ordinary artificial gas received approximately 600,000 B.T.U. in heat, whereas if he buys 1,000 cubic feet of natural gas he receives somewhat in excess of 1,000,000 B.T.U., and although the quantity which passes through and is measured by his meter is the same in both cases, the efficiency of the natural gas is some  $66\frac{2}{3}$  per cent in excess of that of the artificial gas. In other words, in order to perform the same service the consumer will require 40 per cent less natural gas than artificial gas, and at the same rate per 1,000 cubic feet, his bill, if he uses natural gas, will amount only to about 60 per cent of what it would be if he had used artificial gas."

It would appear that the introduction of natural gas at the same rate in a territory theretofore supplied with artificial gas is in effect a reduction in rates. However, it appears from an analysis of defendant's revenue and expense and the careful computations of cost by our engineers, that the rates for natural gas in San Luis Obispo should not exceed the rate in effect in the City of Santa Maria for like service.

I submit the following form of order:

O R D E R .

Midland Counties Public Service Corporation having filed its complaint against the Santa Maria Gas and Power Company and the Santa Maria Gas and Power Company having filed its answer to the complaint, and Santa Maria Gas and Power Company having made application under the provisions in Section 50 of the Public Utilities Act for a certificate that public convenience and necessity require the exercise by it of certain rights and privileges under a franchise to be secured for the distribution of natural gas in the City of San Luis Obispo, and Midland Counties Corporation having filed an answer to and protest against the granting of the said application of the Santa Maria Gas and Power Company, and said proceedings having been consolidated by stipulation of the respective parties, and a public hearing having been held and the case and application having been submitted and now being ready for decision, and the Commission finding as a fact that public convenience and necessity require and will require the exercise by the said Santa Maria Gas and Power Company of the rights and privileges granted to it by Ordinance No. 43 (N.S.) of the City of San Luis Obispo, finally passed on the 19th day of April, 1915, and basing its order herein upon the foregoing finding of fact, and the findings of fact which are contained in the opinion which precedes this order,

IT IS HEREBY ORDERED that the complaint of the Midland Counties Public Service Corporation herein be



and the same is hereby dismissed, and

IT IS FURTHER ORDERED AND DECLARED that public convenience and necessity require and will require the exercise by the Santa Maria Gas and Power Company of rights and privileges granted to it by Ordinance No. 43 (N.S.) of the City of San Luis Obispo, finally passed on the 19th day of April, 1915; provided, however, that the said Santa Maria Gas and Power Company shall first file with this Commission a stipulation to the following effect:

First: Declaring that Santa Maria Gas and Power Company, its successors and assigns, will never claim before the Railroad Commission or any court or other public body a value for said rights and privileges granted by said Ordinance No. 43 (N.S.) of said City of San Luis Obispo in excess of the actual cost to Santa Maria Gas and Power Company to acquire the said rights and privileges;

Second: That the natural gas to be furnished by said Santa Maria Gas and Power Company to the said City of San Luis Obispo and the inhabitants thereof shall be of the same quality as that distributed by the said company to its patrons and consumers in other territory supplied by it;

Third: That the rates to be charged by the said Santa Maria Gas and Power Company for natural gas distributed and sold by it to the

City of San Luis Obispo and to the inhabitants thereof shall not exceed the rates in effect in the City of Santa Maria for like service, unless and until this Commission shall authorize a rate for such gas sold to the City of San Luis Obispo and the inhabitants thereof in excess of the rate in effect in the City of Santa Maria for like service.

And after the filing of such stipulation the Santa Maria Gas and Power Company shall receive from this Commission a supplemental order declaring that such stipulation, in form satisfactory to this Commission, has been filed as herein and hereby directed.

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, this 4<sup>th</sup> day of April, 1916.

Max Thelen  
H. B. Loveland  
Herbert Gordon  
Frank R. Dwyer  
Commissioners.