

Decision No. ✓

ORIGINAL

Decision No. 3999

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

FREDERICK CUTTLE, ET AL.,
Complainants

vs

Case No. 945

HANFORD GAS AND POWER COMPANY,
Defendant.

R. Justin Miller and
S. J. W. Sharp, for Complainants.
John F. Pryor and
C. S. S. Forney, for Defendant.

LOVELAND, Commissioner.

O P I N I O N

This is a complaint filed by thirty-one residents of the City of Hanford against the Hanford Gas and Power Company, alleging insufficiency and inadequacy of defendant's gas plant and system, refusal to make the necessary extensions to prospective consumers, unreasonable and exorbitant rates for gas and inadequate service

on the part of defendant. A hearing was held at Hanford, Kings County, California, on September 19th, 1916.

Defendant is a corporation engaged in the gas utility business in the City of Hanford, Kings County, California. The Hanford Gas and Power Company was incorporated December 12, 1902, with an authorized capital stock of \$100,000.00 divided into 100,000 shares of the par value of \$1.00 each, all outstanding, of which 99,400 shares are held by five persons.

No dividends have ever been paid on the stock of this Company. All surplus earnings have been used to build up the properties. The Company has outstanding a bond issue of \$40,000.00 which matured July 1st, 1916. It proposes to refund this bonded indebtedness and increase the same to a total of \$70,000.00, for which authority has been granted by this Commission in Decision No. 3967, Application No. 2639.

The generating plant consists of two 4 foot straight-shot oil gas sets with a total capacity of 240,000 cubic feet for 24 hours. There are the usual boilers, purifiers, scrubbers, blowers and other accessories. The storage capacity consists of one 30,000 cubic foot relief holder and a 100,000 cubic foot storage holder of steel construction. The plant is modern, and, with proper operation, will produce efficient results.

The distribution system consists of 13 miles of low pressure mains, varying in size from 6 inches to 2 inches, and connected to about 720 services and meters. The annual sales of gas for the year 1915, as shown by the Company's report to this Commission, was 14,269,400 cubic feet, which is an average of about 40,000 cubic feet per day. Comparing this figure with the generator and storage capacity, it is very evident that the production facilities are ample for a much heavier demand for gas and that the reserve capacity of storage holders will provide for all fluctuations with a greatly increased consumption. However, the distribution system requires extensions and reinforcements, if it is to adequately serve this community.

The territory served by the Hanford Gas and Power Company is, at the present time, almost exclusively confined to the City of Hanford, with an estimated population of 6,500, and 4,829 by the Federal Census of 1910. The population is increasing steadily and in one subdivision some fifty houses have been built within the last two years. The City of Hanford is compactly built and a large number of new consumers can be connected to the present lines with but a moderate expenditure.

The present average consumption of gas is less than 20,000 cubic feet per year per meter. It would not be unreasonable to expect to see this increased to

at least 25,000 cubic feet. Both the number of consumers and the consumption per meter can probably be increased through a well planned and carefully developed business campaign.

A valuation of the Company's properties, as of June 30th, 1916, was made by Assistant Engineer Gaskell S. Jacobs, of the Commission's Gas and Electric Department, and showed the value of defendant's physical properties as follows:

Reproduction Cost New	\$ 101 393.61
Reproduction Cost less	
Depreciation	76 315.05

A detail of the valuation of defendant's physical properties, from Commission's Exhibit No. 2, is shown in Table I. following:

TABLE I.

VALUATION OF THE PROPERTY
OF THE HANFORD GAS AND POWER COMPANY

JUNE 30TH, 1916

<u>C.R.C.</u> <u>Acct.</u> <u>No.</u>	<u>Item</u>	<u>Reproduction</u> <u>Cost</u>	<u>Condi-</u> <u>tion</u> <u>per</u> <u>cent</u>	<u>Reproduc-</u> <u>tion Cost</u> <u>Less De-</u> <u>preciation</u>
C- 2	Franchise (Gas)	\$ 250.00		\$ 250.00
C- 5	Land devoted to Gas Operation:	2 250.00		2 250.00
C- 7	Gas Plant Bldgs. & Genl. Str.	4 749.58	72.2	
C- 8	Holdings	20 061.00	84.1	16 878.36
C- 9	Furnaces, Boilers & Acc.	2 372.47	73.0	1 732.63
C-10	Gas Generators	6 723.79	59.1	3 974.21
C-11	Purification Apparatus	5 160.65	69.6	3 593.41
C-12	Steam Engines	685.00	73.7	505.06
C-14	Miscellaneous Gas Plt. Equip.	413.40	86.6	357.93
C-16	Accessory Equip't. at Works	5 987.89	75.9	4 543.55
C-17	Misc. Production Equip.	543.00	75.0	406.90
C-22	Distribution Mains	23 188.67	76.4	17 720.04
C-23	Gas Services	8 036.83	65.0	5 223.94
C-24	Gas Meters	6 877.00	68.3	4 695.93
C-30	Misc. Distribution Equip.	1 810.00	64.2	1 162.50
C-32	General Equipment	200.00	80.0	160.00
C-35	Undistributed Const. Expend.	8 247.14	75.5	6 140.65
C-36	Interest during Construction	2 218.83	75.5	1 674.62
C-38	Stores & Supplies on hand for use in California	1 618.36	100.0	1 618.36
	Grand Total	101 393.61	75.2	76 315.05

Table II. presents a balance sheet of the Hanford Gas and Power Company as of December 31st, 1915, from the Company's annual report to this Commission.

TABLE II.

HANFORD GAS AND POWER COMPANY
BALANCE SHEET, DECEMBER 31ST, 1915

Assets:

Fixed Capital	\$ 202 060.96
Cash	6 943.83
Accounts Receivable	4 776.38
Material and Supplies	<u>1 109.01</u>
	\$ 214 890.18

Liabilities:

Capital Stock	\$ 100 000.00
Funded Debt	40 000.00
Consumers' Deposits	526.00
Accounts Payable	551.84
Interest Accrued	3 679.69
Taxes Accrued	672.61
Reserve for Depreciation	9 129.00
Corporate Surplus	<u>59 331.04</u>
	\$ 214 890.18

Table III. shows a statement of the income account of the Company for the years 1913, 1914 and 1915, taken from Commission's Exhibit No. 7, with comment and adjustment made after an investigation of the Company's books and accounts.

TABLE III.

HANFORD GAS AND POWER COMPANY

INCOME STATEMENT

	1913	1914	1915
<u>Revenue:</u>			
From Sales of Gas	\$ 24 747.37	\$ 25 619.19	\$ 24 134.47
Other Gas Revenue	12.72		463.50
Merchandise and Jobbing Revenue	350.00		131.89
By-Product Revenue		4.15	12.25
Total Revenue	\$ 25 110.09	\$ 25 623.34	\$ 24 742.11
<u>Operating Expenses:</u>			
Production	\$ 8 925.66	\$ 9 581.72	\$ 9 882.65
Distribution	2 080.53	2 263.78	2 232.01
Commercial	17.69		
General	2 044.28	2 767.20	2 975.37
Taxes	1 233.92	1 208.09	1 411.09
Depreciation	3 325.34		5 303.66
Total Operating Expenses	\$ 17 627.42	\$ 15 820.79	\$ 22 304.78
Net Operating Income	\$ 7 482.67	\$ 9 802.55	\$ 2 437.33
<u>Deduct:</u>			
Uncollectible Bills	\$	380.85	383.26
Interest on Funded Debt	2 667.82	2 400.00	2 400.00
Other Interest	392.18	435.00	95.00
Total Deductions	\$ 3 060.00	\$ 3 215.85	\$ 2 878.26
Balance to Surplus	\$ 4 422.67	\$ 6 586.70	\$ 440.93

Making corrections for reasonable depreciation allowance, and for replacements chargeable to reserve instead of to operating expenses, the balance to surplus would be,

1913	\$ 6 015.83
1914	4 586.70
1915	3 862.73

Assistant Engineer Jacobs further made a complete investigation of revenue, operating expenses, gas manufactured and sold, consumers, and other factors affecting rates and service, all of which is in the record of this case.

It was very evident from a study of the facts in this case that defendant's gas business has not kept pace with the growth of the community it serves. Defendant's revenues for the years 1913, 1914 and 1915 have not shown any material increase nor has the number of consumers receiving service. Defendant's expenses have increased from year to year but defendant has not apparently foreseen the necessity of making extensions or increasing the business connected to its system and the necessary improvements to its service demanded by the growth of the community.

The Company is owned and operated by parties having other extensive interests of many kinds and they have admitted their neglect of the gas business in Hanford. For some time past they have recognized the necessity of extensions and modifications to their system such as will result in adequate service in their community, but have not had funds at their disposal, nor have the recent earnings of the plant been sufficient to provide them with funds for these purposes.

The unsatisfactory earnings shown by defendant have resulted because the owners of this property have devoted their energies to their other interests, and not to their public utility. We are assured that they will now vigorously apply themselves to the gas business in Hanford. We expect them to do so. Our desire to see defendant earn satisfactory returns is due to our belief that a utility which is not successful usually cannot serve the public well. We confidently expect defendant to improve its system and service and develop its business to a point which will prove satisfactory to its patrons, to the Commission, and to itself.

Complainants introduced testimony through fourteen witnesses, all present or prospective consumers, whose testimony was to the general effect that the Company has not made the necessary extensions, that the pressure of gas was insufficient at certain periods of heavy consumption, that the quality of gas was poor and that the pressure was low. Evidence was introduced in the form of bills rendered consumers showing the comparatively high rates charged by the Company. Their testimony further showed that while complaints were numerous, the Company had in every instance endeavored to effect a temporary, if not permanent, relief. Complainants introduced evidence comparing gas rates in Hanford with gas rates elsewhere in cities of the same character.

Such comparisons are in no measure a guide to either the reasonableness of the rates or to the value of the service and are not in any sense conclusive evidence on these points.

It was stipulated, with reference to future extensions, that in the event of disagreement between the Company and a prospective consumer, that a complete statement of the situation covering probable cost of extension, probable revenue to be derived, and other pertinent items, should be submitted to the Commission's Engineering Staff for adjustment.

At the time of the hearing of this complaint, defendant had been charging the following schedules of rates:

<u>Quantity per Month</u>	<u>Gross per 1000 cu.-ft.</u>	<u>Discount per 1000 cu.-ft.</u>	<u>Net per 1000 cu.-ft.</u>
600 to 5,000 cubic feet	\$ 2.00	\$.25	\$ 1.75
5 100 to 20,000 cubic feet	2.00	.50	1.50
20 100 cubic feet and over	2.00	.75	1.25

Minimum charge per month per meter \$1.00

Since the hearing defendant has filed the following schedule of rates, effective January 1st, 1917:

For gas used in any one month:

	<u>Gross per 1000 cu.-ft.</u>	<u>Discount per 1000 cu.-ft.</u>	<u>Net per 1000 cu.-ft..</u>
For the 1st 1 000 cubic feet or less	\$ 1.70	\$.10	\$ 1.60
For the next 4 000 cubic feet	1.60	.10	1.50
For the next 5 000 cubic feet	1.45	.10	1.35
For the next 10 000 cubic feet	1.35	.10	1.25
For the next 20 000 cubic feet	1.10	.10	1.00
For all over 40 000 cubic feet	.95	.10	.85

Minimum charge per month per meter \$1.00

Since the hearing in this case the defendant company has applied for authority to mortgage its property to the extent of \$70,000.00, of which \$40,000.00 is to be used in retiring a matured bond issue and the remainder of \$30,000.00 to be used for extensions and betterments to its plant and system. The Company proposed to spend this \$30,000.00 in the construction of a high pressure belt line encircling the town and running largely through productive territory, to effect a vigorous commercial campaign with the ultimate object of adding three to four hundred consumers to their system, to reinforce their present system and improve the same so that an adequate supply of gas under sufficient pressure shall at all times be available.

In Decision No. 3967 in the above mentioned application, No. 2639, this Commission has authorized the defendant herein to incur a bonded indebtedness of \$70,000.00, to issue \$50,000.00 of said bonds at the present time, using the proceeds for the refunding of the \$40,000.00 matured bond issue and \$10,000.00 for immediate improvements to its system, and, under the authority of subsequent supplemental orders of this Commission, to spend the remaining \$20,000.00 on further extensions and improvements. As a result of obtaining these funds, applicant will be in a position to make all necessary extensions to supply three to four hundred new consumers in the City of Hanford and to make such changes to its plant and system as will effectively dispose of complaints based upon insufficient pressure, inadequate supply, and lack of facilities.

Defendant's rates are high compared with other gas rates in force in this State. Its business has not been given the attention due it from its owners and management and it has not kept pace with the growth of its territory. At the present time its business is practically stationary and unless serious efforts are made to introduce improved methods and to take on new business, defendant's future does not look promising.

A study of defendant's operating expenses and the testimony introduced in this case shows that defendant's present rates, although high, are in no sense remunerative and that on the present showing defendant is making only a small profit over operating expenses. We cannot, under such conditions, reduce the defendant's rates for gas. Defendant has, however, after consultation with the Commission's Engineering Staff, filed with this Commission a new schedule of rates, effective January 1st, 1917, which voluntarily makes a substantial reduction over the former rates in effect at the time of filing this complaint. These new rates result in a decrease in the price of gas of approximately twenty cents per thousand in the case of an average consumer and are such a form as to encourage the increased consumption of gas and to offer greater inducement to prospective consumers.

In view of the fact that the defendant's present rates are unremunerative and that defendant contemplates in the immediate future such a substantial change in the size of its system as to render rate computations on the basis of the present consumers unreliable, we believe that the new rates filed by defendant company are satisfactory rates insofar as they effect a reduction in the price to consumers, and offer the inducements necessary to increase defendant's business.

Reference is hereby made to Decision No. 3967 in Application No. 2639, for pertinent comment on the operating expenses and business of defendant, all of which is of interest in the present matter.

Among the causes responsible for the comparatively high rates of defendant company may be cited, first, the inefficiency of the process of gas generation, requiring a large outlay for fuel oil, and secondly, the over installation of the production facilities of the plant, the burden of which has to be borne by a small number of consumers using a small amount of gas. With reference to the first of these factors, the Company has succeeded in the latter part of the year 1916 in reducing the amount of oil used per thousand cubic feet from approximately eighteen gallons to twelve gallons. The second condition can only be remedied by obtaining a sufficient number of new consumers and increasing the consumption of all consumers, so that the burden of fixed charges can be distributed over a greater number of consumers and a larger quantity of gas sales. These facts have been called to the attention of defendant's management and we are assured that it is with a full appreciation of these conditions that their future course will be directed.

In lieu of a brief the defendant company has filed with this Commission, under date of November 24th,

1916, a letter stating their intentions of making extensions and betterments to the system, improving service conditions and the conduct of their business, and, further, that it is their purpose to make every possible effort to remedy conditions which have occasioned complaints against the Company in the past and to make such general improvements as will eliminate the possibility of any complaints in the future. They further state that the new schedule of rates filed will not at the present time provide them with more than a small profit over bond interest, but that with a vigorous commercial campaign they hope to build up their business within a year's time, so that if their efforts prove fruitful that they will at a later date be able to further reduce the rates.

We are satisfied that this proceeding has impressed the defendant utility with the urgent necessity of making extensions and improving its service generally. We have their assurance that they will make every effort along these lines, and we have authorized elsewhere the means of obtaining funds for improvements. Defendant has voluntarily filed a schedule of reduced rates. Investigation shows that the former rates, although high, did not yield an adequate return and that the reduced rates filed will not at the present time yield defendant

much in excess of current operating expenses. These reduced rates, however, will materially aid defendant to build up its business, which will ultimately reflect advantageously upon all of defendant's consumers.

It is evident from a study of this situation that defendant can earn an adequate return under reduced rates, only if its production methods are improved, its consumers increased to one thousand or more, and its business efficiently managed and developed. Such development should be expected in view of the existing conditions in and about Hanford. In our judgment, immediate development of this fertile territory is essential to defendant's future success.

In view of all the conditions set forth above and considering the fact that the immediate future will entirely modify conditions and costs under which defendant will continue to supply gas, all of which are problematical, it is our opinion that the new schedule of rates filed by defendant, effective January 1st, 1917, are fair and reasonable rates and that as such we would recommend their acceptance in final adjustment of this matter.

I find as a fact that in the past defendant company has not adequately or satisfactorily served its consumers and that it has not made the necessary extensions required by the normal growth of its territory,

that its rates in effect at the time of filing this complaint were unjust and unreasonable insofar as said rates departed from just and reasonable rates herein established.

I submit the following form of order:

O R D E R

IT IS HEREBY ORDERED that defendant company at once take all those necessary measures to provide adequate service to its consumers, to make all extensions necessary to completely serve all applicants for service within its territory, provided such extensions are not in themselves unremunerative.

IT IS FURTHER ORDERED that the following rates are just and reasonable rates for gas service in the City of Hanford and, as such, are approved by this Commission as effective January 1st, 1917, as filed.

SCHEDULE OF GAS RATES
HANFORD GAS AND POWER COMPANY
EFFECTIVE JANUARY 1, 1917

For gas used in any one month:

	Gross per 1000 cu.-ft.	Discount per 1000 cu.-ft.	Net per 1000 cu.-ft.
For the 1st 1 000 cubic feet or less	\$ 1.70	\$.10	\$ 1.60
For the next 4 000 cubic feet	1.60	.10	1.50
For the next 5 000 cubic feet	1.45	.10	1.35
For the next 10 000 cubic feet	1.35	.10	1.25
For the next 20 000 cubic feet	1.10	.10	1.00
For all over 40 000 cubic feet	.95	.10	.85

Minimum charge per month per meter \$1.00

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 15th
day of January 1917.

Max Thelen
H. Shoreland
W. Gordon
Frank R. Decker
COMMISSIONERS