

ORIGINAL

Decision No. 4039

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

BEFORE THE RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA.

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A. W. HORWEGE, as Mayor of the City  
of Petaluma, an incorporated muni-  
cipality,

Complainant,

vs.

Case No. 764.

PACIFIC GAS AND ELECTRIC COMPANY, a  
corporation,

Defendant.

MAX ROSENBERG, et al.,

Complainants,

vs.

Case No. 935.

PACIFIC GAS AND ELECTRIC COMPANY, a  
corporation,

Defendant.

In the Matter of the Application of  
PACIFIC GAS AND ELECTRIC COMPANY, a  
corporation, for a general determina-  
tion of and adjustment of rates to be  
charged by applicant for gas supplied  
to the incorporated towns of Santa  
Rosa, Petaluma and Sebastopol, and the  
inhabitants thereof, the unincorporated  
town of Cotati, and the inhabitants  
thereof; and to the territory contigu-  
ous to its gas distribution main running  
from its Santa Rosa gas plant to Peta-  
luma and to Sebastopol, and the consumers  
supplied therefrom; and for a consoli-  
dation with this application of Case  
No. 935.

Application No. 2419.

C. P. Hall for City of Petaluma.  
L. R. Lambert for Max Rosenberg.  
C. P. Cutten for Pacific Gas and  
Electric Company.

DEVLIN, Commissioner.

## O P I N I O N .

The complaint in Case No. 764 was filed by Mr. A. W. Horwege, as Mayor of the City of Petaluma, on behalf of said City of Petaluma and its inhabitants against the Pacific Gas and Electric Company, hereinafter referred to as the Company, alleging that the rates for gas furnished to said city and its inhabitants are excessive and unreasonable. The answer of the defendant denies the material allegations in the complaint. Hearings were held in this case and evidence was submitted by the interested parties and the Commission's Engineering Department. The case was submitted on January 5, 1916. Following the submission and prior to an order in this case, complaint was filed by residents of the City of Santa Rosa against the rates, and as the gas supplied to the two towns is produced at the same plant and the operation of the two districts are so closely related, the Commission issued an order setting aside the submission of the case and consolidating it with Case No. 935 and Application No. 2419.

The complaint in Case No. 935 was filed by Max Rosenberg and thirty-one other persons of the City of Santa Rosa against the Company, complaining, in effect, that the rates for gas furnished to the complainants in the City of Santa Rosa are unjust and unreasonable. In this case also the defendant denies that the rates, or any of them, are unjust and unreasonable. Following the first hearing in this case, the defendant asked permission to amend its pleadings to request that the Railroad Commission fix rates for the entire territory served by its system supplying Santa Rosa and Petaluma and rural territory.

Application No. 2419 was filed by the Company on July 13, 1916, and requested the Railroad Commission to make a general determination and adjustment of the rates to be charged by it for gas supplied to the Towns of Santa Rosa, Petaluma, Sebastopol and Cotati, and the inhabitants of said towns and to all consumers supplied with gas by applicant in rural territory between the various cities.

By stipulation of the parties the three matters were consolidated for hearing and decision, and it was further stipulated that evidence previously introduced in the Petaluma Case (No. 764) was to be considered as part of the evidence in the consolidated cases. Additional testimony and evidence covering the question of capital, operating statistics and expenses and reasonableness of the rates were introduced by the parties and the Commission's Gas and Electric Department.

The production and distribution of artificial gas for lighting purposes in Santa Rosa dates back to 1872 when high grade gasoline gas was manufactured. From that date until 1902, many changes were made in the plant and method of gas manufacture and several changes in the management occurred. In 1901 Pacific Lighting Corporation, later known as the Central Gas & Electric Company, took over the Santa Rosa properties, and the following year a transmission main was laid to Petaluma, thus joining the two systems. About the same time the Company commenced the manufacture of oil gas in place of coal gas.

The gas business in Petaluma dates still further back, to 1862, but apparently was carried on with little success. After many changes in management, it was taken over by the California Gas & Electric Corporation in 1900, and

later, in 1906, was consolidated with the Company at Santa Rosa and several other utilities, forming the Pacific Gas and Electric Company. Following the joint operation of the Petaluma and Santa Rosa systems in 1902, the Petaluma production plant was abandoned and the Santa Rosa plant enlarged.

The growth of the system and the business has been steady since the consolidation; the plant output has increased from 15,000,000 cubic feet in 1902 to over 110,000,000 cubic feet in 1915. Records of the Company show the following increases in capital, expenses, etc., from 1907 to 1915 for the entire system, including in addition to the two main cities of Petaluma and Santa Rosa, the town of Sebastopol which was served in 1910 for the first time.

PETALUMA AND SANTA ROSA

GAS DISTRICTS

Capital, Expense and Statistics

Company's Report

	<u>1907</u>	<u>1915</u>
Capital based on J.G.White & Co.Valuation	\$264,120.92	\$466,094.20
Gross Revenue. . . . .	50,670.82	106,941.40
Expense not including insurance. . . . .	<u>46,146.23</u>	<u>74,614.53</u>
Net for Interest, Depreciation and Insurance. . . . .	\$ 4,524.59	\$ 32,326.87
Number of Consumers December 31st. . . . .	1973	3757

From the above figures it appears that a considerable growth has occurred in the Company's business, but, according to the Company's exhibits, the business has not been remunerative. In fact in 1915 when the number of consumers had reached

3757, the net return on the value claimed was only 6.93 per cent for interest, depreciation and insurance.

A general consideration of the size and business of this system would lead one to conclude that the Company should be earning a very reasonable profit on its investment, as the rates are as high as the average for plants of similar size and the consumers per mile of mains about the average.

The present system serving the towns of Petaluma, Santa Rosa and Sebastopol consists of an oil gas generating plant located in Santa Rosa from which gas is distributed at low pressure in that city. A high pressure transmission main extends from Santa Rosa to Petaluma, a distance of approximately 18 miles and another line from Santa Rosa to Sebastopol. Gas is distributed along the two transmission lines at high pressure and a medium high pressure distribution system is installed in Petaluma.

A slightly greater number of consumers are located in the Santa Rosa District, which includes Sebastopol, than in the Petaluma District, but the sales are practically equal in the two districts due to the larger use of gas in the Petaluma District for the operation of brooders and incubators. The management and operation is divided into two districts both being part of the Pacific Gas and Electric Company's system and in both gas and electric service is rendered, from which it would appear that economy should result from the joint operation.

At the time the two systems were joined, the larger part of the business was in Santa Rosa and the plant was apparently located in that town as a result, oil being delivered at Petaluma by barges and transported to Santa Rosa in tank cars. Were the joint system to be constructed today,

unquestionably the logical location for the production plant would be Petaluma, as this location would result in a saving in excess of \$2,500.00 per year on freight charges alone. Whether at this time, a duplication of production facilities for the Petaluma District would be justifiable, is, however, at least questionable.

Mr. E. S. Bryant, Assistant Engineer of the Gas and Electric Department of the Railroad Commission, submitted an estimate of the historical reproduction cost now of these entire gas properties used in serving the combined districts. In the following table is included a summary of this valuation together with a comparative reproduction estimate submitted by the Company, based upon the J. G. White & Company appraisal of December 31, 1911, plus net additions and betterments to date.

COMPARISON OF VALUATION.

	Historical Reprod. Cost. E. S. Bryant.	J. G. White & Co. plus Additions and Betterments.
	5-31-16	12-31-15
Landed Capital . . . . .	\$ 13,257.00	\$ 15,750.00
Production . . . . .	129,073.00	131,702.60
Transmission . . . . .	68,202.00	60,855.42
Distribution . . . . .		
Mains	123,334.00	128,743.01
Services, Meters and Regulators	99,033.00	99,784.05
<del>Construction work done but</del> . . . . .	<del>1,333.00</del>	<del>1,333.00</del>
Stores and Supplies. . . . .	5,599.00	6,316.84
General. . . . .	7,363.00	7,951.13
Construction work done but not segregated . . . . .		21,307.99
Total not including working capital. . . . .	\$ 445,881.00	\$ 472,411.04

The main differences in the two valuations are due to the lower overhead used by Mr. Bryant and to the fact that the J. G. White & Company appraisal included paving over mains not paid for by the Company at the time of the appraisal. The testimony shows that Mr. Bryant's valuation of mains should be increased approximately \$950.00 to correct the price of cast iron mains used.

Evidence was introduced by the Company to the effect that the amounts allowed by Mr. Bryant for casualty insurance were less than those based upon present rates, but nothing was introduced to the effect that the Company had in the past expended any such percentages as testified to, and considering the entire evidence I believe the overhead percentage allowed by Mr. Bryant to be sufficient in estimating the historical reproduction cost.

The Company introduced statements of operating expenses and statistics of the entire district for the years 1913 to 1915, inclusive. Similar data was introduced for the two districts separately but it was impossible to directly segregate expenses between incorporated and unincorporated territory.

Mr. L. S. Ready, Assistant Engineer of the Gas and Electric Department of the Railroad Commission, submitted a general analysis of the operating expenses and statistics reported by the Company together with a comparison of these expenses with the operations of the gas plant at Pomona, California. While it is true, that identical operating conditions were not shown, still the evidence showed sufficient similarity of con-

ditions to make the two conditions fairly comparable. The two plants have practically the same number of consumers, miles of mains, type of system and total sales. This analysis shows that the total operating expenses per 1,000 cubic feet sold for 1915 were approximately \$1.11 in the Santa Rosa District as compared with 75 cents for the Pomona District, oil being estimated in each case at 90 cents per barrel.

The unit costs of operation of the Santa Rosa system appear approximately 50 per cent in excess of those at Pomona. The percentage of unaccounted for gas was over 35 per cent in Santa Rosa as against 10 per cent at Pomona.

Mr. Ready made an estimate of the probable sales for the year 1917 and estimates of the reasonable economical operating output, unaccounted for gas, and expenses based upon his analysis of the two comparative systems. His estimate for 1917 of operating expenses based upon the reasonable operation of the plant was 84 cents per thousand cubic feet sold. In view of the evidence as to the increase in the cost of oil, it seems that \$1.08 per barrel should be adopted as the probable cost, instead of 90 cents per barrel as estimated. With this correction, the operating expenses should not exceed 90 cents per thousand feet of gas sold.

While the Company's earnings have undoubtedly been small, its own exhibits indicating earnings of but two or three per cent during the past ten years, still, I think the evidence justified Mr. Ready's conclusion, as testified to by him, that efficiency and economy have not been practiced to that degree that would absolve the Company from responsibility for such small earnings. One fact strongly tending



to support this view is the unusually and apparently unreasonably high percentage of unaccounted for gas, totalling 35 per cent of production in 1915.

The Company introduced testimony to the effect that peculiar and disadvantageous soil conditions are present in the Petaluma territory, and this is undoubtedly the fact, to which consideration has been given. I am not persuaded, however, that even with such soil conditions that the amount of unaccounted for gas could not be materially reduced.

The fact that the Company has expended during the past for operation the amounts reported, is not conclusive that such expenditures are reasonable and should have been made under economic and efficient operation; and logically it follows that even though such expenditures were made, but were not wisely, economically and efficiently made, that there should not be added to such operating expenses the amount of earnings necessary to produce a reasonable return upon the investment.

It appears from the estimated operating expenses testified to by Mr. Ready, and the valuation made by Mr. Bryant, increased for net additions and betterments plus the usual amount of working capital allowed by this Commission, the Company will earn during 1917 approximately 8.4 per cent for interest and depreciation on the entire district. With deduction of depreciation, which by reason of soil conditions already referred to, will be in excess of the amount of depreciation which would otherwise be adequate, an earning of less than six per cent will result.

The net earnings upon a proportional capital chargeable to the city of Santa Rosa, based upon the sales to that city and on the same basis of operation, would be approximately 8 per cent if the rates charged by the Pacific Gas and Electric Company in Vallejo and San Rafael are applied. These rates result in an average return per thousand cubic feet sold, practically the same as now received by the Company.

The present rates for gas in this district are as follows:

SCHEDULE NO. 12 and 20.

Light, Heat and Power Service.

RATE

On the basis of monthly consumption per meter.

- \$1.50 per 1000 cubic feet if the consumption is less than 10,000 cu.ft.
- 1.25 per 1000 cubic feet if the consumption equals or exceeds 10,000 cu.ft. but is less than 15,000 cu.ft.
- 1.00 per 1000 cubic feet if the consumption equals or exceeds 15,000 cu.ft.

Minimum Monthly Charge 50 cents per Meter.

SCHEDULE NO. 13 and 21.

Optional Schedule for

Incubator and Brooder Service.

RATE

On the basis of monthly consumption per meter.

- \$1.50 per 1000 cubic feet if the consumption is less than 6,000 cu.ft.
- 1.00 per 1000 cubic feet if the consumption equals or exceeds 6,000 cu.ft.

Minimum Monthly Charge 50 cents per Meter.

This form of rate which apparently charges more for 9,000 cubic feet consumption than for 10,000 for domestic consumers does not equitably apportion the charges and is inconsistent with the general rates applied by gas utilities.

The Company has placed in effect the following rates in a number of its districts, which rates more uniformly apportion the charge and should encourage greater use by the larger consumers although it fails to benefit the average consumer.

SCHEDULE NO. 31.

Light, Heat and Power Service.

RATE

On the basis of monthly consumption of gas per meter.

\$1.50	per	1000	cubic	feet	for	the	first	5,000	cubic	feet.
1.00	"	1000	"	"	"	"	next	5,000	"	"
.80	"	1000	"	"	"	"	all over	10,000	"	"

Minimum Monthly Charge 50 cents per Meter.

An analysis of the sales to the various brooder and incubator consumers shows that in several instances the above rate will result in a reduction in their present rates but that for the majority of the smaller users a definite increase will result.

It appears advisable, considering the development of this business by the specific rate now in effect for this class of service, that it should be continued as an optional schedule for incubator and brooder service. The specific ruling should be made, however, that the maximum bill to be rendered for monthly consumptions of less than 6000 cubic feet should be \$6.00.

It would appear from the fact that the rates in effect in these districts are as high as, and in some cases higher than rates on similar systems in the State, and that the sales in the city of Santa Rosa and Petaluma for domestic and general commercial service are below the average throughout the State, that the present rates are as high as the service is worth, or even higher than will result in the greatest sales and return. I believe that the rates provided in the proposed schedule included in the order in this case are just and reasonable and that the Company must obtain increased revenue by an increase in its sales.

I submit the following form of order:

O R D E R .

Public hearings having been held in the above entitled proceedings, and said proceedings having been regularly submitted and being now ready for decision, the Railroad Commission of the State of California hereby makes the following findings of fact:

1. The Railroad Commission finds that the rates for the service of gas of the Pacific Gas and Electric Company in the territory known as the Petaluma and Santa Rosa districts are unjust and unreasonable in so far as they differ from the rates herein established.

Basing its order on the foregoing findings of fact, and on each statement of fact contained in the

opinion preceding this order,

IT IS HEREBY ORDERED AS FOLLOWS:

Pacific Gas and Electric Company is hereby ordered to establish and file with the Railroad Commission of the State of California on or before February 10, 1917, the following rates for gas service of the same standard of quality now supplied and for which it has held itself out as supplying in the territory known as the Santa Rosa and Petaluma districts, which rates are found to be just and reasonable rates:

SCHEDULE A.

Light, Heat and Power Service.

RATE

On the basis of monthly consumption of gas per meter.

\$1.50	per	1000	cubic	feet	for	the	first	5,000	cubic	feet.
1.00	*	1000	"	"	"	"	next	5,000	"	"
.80	"	1000	"	"	"	"	all over	10,000	"	"

Minimum Monthly Charge 50 cents per meter.

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SCHEDULE B.

Optional Schedule for  
Incubator and Brooder Service.

RATE

On the basis of monthly consumption per meter.

\$1.50 per 1000 cubic feet if the consumption is less than  
6,000 cu.ft.

1.00 per 1000 cubic feet if the consumption equals or  
exceeds 6,000 cu.ft.

Minimum Monthly Charge 50 cents per Meter.

Maximum Charge for 6,000 cu.ft. or less  
per month \$6.00.

The foregoing opinion and order are hereby approved  
and ordered filed as the opinion and order of the Railroad Com-  
mission of the State of California.

Dated at San Francisco, California, this 20<sup>th</sup>  
day of January, 1917.

Max Thelen  
H. L. Loveland  
W. J. Gordon  
Edwin O. Edgerton  
Frank P. Nelson

Commissioners.