

BEFORE THE RAILROAD COMMISSION OF THE  
STATE OF CALIFORNIA

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ORIGINAL

CITY OF POMONA, a municipal corporation,

Complainant,

vs.

SOUTHERN COUNTIES GAS COMPANY, a corpo-  
ration,

Defendant.

Case No. 1051

C. W. Guerin, City Attorney,  
for Complainant

Leroy M. Edwards, for Def-  
endant.

LOVELAND, Commissioner:

O P I N I O N

This is a complaint filed by the City of Pomona against the Southern Counties Gas Company, defendant, alleging in effect that the rates for natural gas furnished by the defendant to the City of Pomona and its inhabitants are materially higher than the rates charged by said defendant to the consumers of natural gas in other cities similar to Pomona in size and location and asking that the Commission reduce the rate charged in the City of Pomona.

Defendant in its answer denies that it charges its consumers in the City of Pomona rates materially higher than the rates charged by defendant in other cities similar to Pomona and alleges that the rates charged in the City of Pomona are, so far as its consumers are concerned, fair, just and equitable and are not excessive. Defendant further alleges that for many years prior to February 1st, 1917 City of Pomona was supplied with

artificial gas containing approximately 600 B. T. U.'s per cubic foot; that in June 1916 defendant purchased the gas properties serving Pomona and at urgent request and solicitation of various officials and residents of Pomona constructed a natural gas pipe line from the oil fields and since the latter part of February has been supplying its consumers with natural gas in excess of 1050 B.T.U. Defendant prays that the complaint be dismissed.

Hearing in this case was held at Pomona on April 13, 1917 at which evidence was introduced by the City of Pomona through its Mayor, Mr. W..A. Vandergrift, and by the defendant through its engineer, secretary and superintendent.

Evidence introduced by the City of Pomona was, in general, to the effect that the rate charged in Pomona was in excess of that charged by the Southern Counties Gas Company in Santa Ana and Orange where the ~~maximum~~ rate was 75¢ per thousand cubic feet although Pomona was as near to the oil fields as the other districts and that therefore the rate in Pomona should be no greater.

Southern Counties Gas Company introduced evidence showing the valuation of its properties chargeable to the City of Pomona, statement of the operating revenue and expense for the month of March 1917 together with testimony regarding the earnings of the company prior to the introduction of natural gas together with those for the period since natural gas was introduced and also evidence as regards relative economy of natural gas as compared with artificial.

Prior to June 1916 the gas plant and distribution system supplying Pomona, San Dimas, Lordsburg, Claremont, Chino and intervening territory was owned and operated by the Southern California Edison Company. Artificial gas of approximately 600 B.T.U. per cubic foot was produced in a plant located at

Pomona and transmitted to the other towns. The rate charged in the City of Pomona was \$1.10 per thousand cubic feet. In June 1916 Southern Counties Gas Company, after receiving the approval of the Railroad Commission, purchased this gas system from the Southern California Edison Company together with the system supplying Long Beach, Santa Monica and Venice.

Southern Counties Gas Company has for some time been supplying natural gas to Anaheim, Santa Ana, Orange and intervening territory, the gas being obtained from the oil fields known in general as the Fullerton Fields. The company was urged by people of Pomona and vicinity to supply natural gas in this district and in view of this request, the general increase in price of oil which would eventually require an increase in gas rates in case artificial gas was supplied, and in order to give the public the benefit of the natural gas service, the Southern Counties Gas Company made application to the Commission on July 18, 1916 requesting permission to construct a natural gas line to Pomona for the supplying of natural gas in that territory. This application was granted in the Commission's Decision No. (Vol. 10 Opinions and Orders of the Railroad Commission, p.661.) 3566 issued August 10, 1916. The line was completed at a cost of approximately \$83,000 and natural gas delivered to the City of Pomona January 28, 1917. With the introduction of natural gas the Southern Counties Company filed and put in effect a revised schedule of rates for general domestic service which although not a reduction in rate per 1000 cu. ft. in the case of consumptions of less than 2000 cu. ft. per month show material reductions for larger consumptions. The natural gas supplied, however, has a heating value of practically twice the artificial gas previously supplied so that the introduction of natural gas has actually resulted in a reduction of rates amounting to 40 or 50% due to the fact that for the same money consumers will

now get practically twice as much heat as formerly.

The valuation of the defendant's property chargeable to the service of Pomona was reported by Mr. Morton R. Thompson, Engineer for defendant, as \$366,666.97 as of February 28, 1917. This estimate was based upon an estimate of the present or depreciated value as of February 1, 1916 made by W. A. Baehr, Valuation Engineer, plus net additions and betterments. This valuation was introduced in evidence for the purchase of the property in Application 2200 before the Railroad Commission. Complainant questioned the inclusion of certain items as chargeable to Pomona service. However, as the inclusion or exclusion of the items cannot in any way affect the question of rate, due to the low return at present received, the correctness of these will not be passed upon.

Testimony introduced is to the effect that for the last six months of 1916 when artificial gas was supplied at \$1.10 per thousand cubic feet the net revenue for interest and depreciation on the valuation was only 6.3%, which would leave approximately 4% in case depreciation was deducted. During that period the company was paying 83¢ per barrel for oil as against the present and possible future price of \$1.38. It would appear, therefore, that had the company not introduced natural gas, an increase of rates might have been required in order that the company should earn the cost of money.

At the time of the hearing natural gas had been supplied for the month of March 1917 only and records as regards the earnings of the company were limited therefore to that period. It appears from the evidence that during the month of March the company's gross revenue for the City of Pomona was \$4,371.16 and operating expense \$4,127.68, leaving a net income of \$243.48 which on the capital investment chargeable to the City of Pomona of \$364,654.02 amounted to an average

of only .8 percent for interest and depreciation.

It appears that certain of the expenses were higher than possibly normal due to extra expense in adjusting appliances following the introduction of natural gas and to the active campaign for new business which has been instituted in order to increase the sales and revenue and make the distribution of natural gas at the rates remunerative.

The month of March especially, being the first month of service of natural gas cannot fairly be used to determine the possible cost or revenue for the entire year. I doubt whether records for a complete 12 months of natural gas service following the service of artificial gas would be sufficient to determine the reasonableness of these rates; certainly one month would not. The present rates do not appear excessive compared with other rates in comparable cities and especially when it is considered that a direct reduction over cost to the consumer of artificial gas of about 40 percent has been made.

Considerable stress was laid by the City on the fact that certain cities in Orange County enjoyed a rate of 75¢ per 1000 cu. ft.. This lower rate was voluntarily put in effect upon the introduction of natural gas in that territory when Southern Counties Gas Company first commenced the service of natural gas with the hope apparently of increasing the business sufficient to make up the loss. About a year subsequent to the first service of natural gas Southern Counties Gas Company applied for an increase of rates on grounds that the rate was not remunerative. This application was denied on the grounds that sufficient time had not elapsed to determine with a reasonable degree of certainty whether the rates would yield a reasonable return. Southern Counties Gas Company contends that the rate of 75¢ per thousand does not net a reasonable return. It is

possible that rather than the Pomona rate being too high the 75¢ rate is too low and it cannot fairly be held against the defendant that its possible mistake in one instance shall require it to do the same elsewhere.

Mr. Vandergrift, Mayor of Pomona, testified that the high gas bills during the months of January and February caused considerable complaint and that reduction due to introduction of natural gas had not been as great as had been expected. The high bills in January and February were due largely to the cold weather prevailing. The apparent continuance of fairly high bills after introduction of natural gas was not entirely explained as tests showed that the heat content was over 1050 B.T.U. per cu. ft. for natural as against 580 for artificial. Experience in other localities has shown a definite reduction of consumption for the same use of from 40 to 50% and it is fair to assume that the same will result in Pomona after another month's trial.

Considering the facts that the Southern Counties Gas Company has introduced natural gas at an investment of approximately \$90,000 thus actually giving the people of Pomona almost 100 percent more for their money than formerly, that it is not earning a reasonable return on its investment to serve Pomona and that it does not request an increase of rates but plans to increase its revenue by development of business, I believe that the complaint of the City of Pomona should be dismissed.

I therefore recommend the following form of Order:

O R D E R

City of Pomona having filed a complaint requesting a reduction in the rates for natural gas charged by the Southern Counties Gas Company and a public hearing having been held and the case being submitted and now ready for decision, and it

appearing that the present rates of the Southern Counties Gas Company are not excessive or unjust to the consumer and the Southern Counties Gas Company requesting that the complaint be dismissed.

IT IS HEREBY ORDERED that the above entitled complaint be and the same is hereby dismissed.

The foregoing Opinion and Order are hereby approved and ordered filed as the Opinion and Order of the Railroad Commission.

Dated at San Francisco, California this

17th day of May, 1917.

Max Helem  
W. H. Ireland  
W. H. Gordon  
Edwin O. Edgerton  
Frank P. Devlin  
Commissioners.