

ORIGINAL

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

Decision No. 4469

BEFORE THE RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA.

In the Matter of the Application of  
CENTRAL CALIFORNIA GAS COMPANY, a  
corporation, for an order that there-  
after a certificate will issue find-  
ing that public convenience and  
necessity will be subserved by the  
exercise by Central California Gas  
Company of franchises in the Counties  
of Kern, Tulare and Kings, for the  
construction of a natural gas trans-  
mission system extending from Hillman  
Compressor Station of the Standard  
Oil Company, located on Section 36,  
Township 31 South, Range 23 East, in  
Kern County, north to Corcoran in  
Kings County to Hanford in Kings  
County and to Tulare in Tulare County,  
said franchises having heretofore  
been applied for.

APPLICATION  
No. 2812.

LOVELAND AND DEVLIN, Commissioners.

OPINION

This is an application of the Central  
California Gas Company asking for a certificate from  
this Commission that the present or future public

convenience and necessity require or will require the construction of a transmission system to conduct natural gas from the Kern County oil fields and deliver the same in the communities of Corcoran and Hanford, Kings County, and Tulare and Porterville and other territory now being served with artificial gas by the applicant in Tulare County.

The allegations set forth in this application are substantially as follows:

Applicant is now manufacturing artificial gas from oil secured at a price considerably lower than the present market under a contract which will expire in September 1917, and the Hanford Gas and Power Company is supplying the City of Hanford with gas made from oil purchased under a similar contract which will expire in December 1917. At the present market price of oil the applicant's manufacturing cost, based on its present output, will be increased upon the termination of this contract by approximately \$12,000 per year and likewise the operating costs of the Hanford Gas and Power Company will be approximately \$4,000 greater per annum than they are at present.

The applicant alleges that in order to avoid the necessity of applying for a corresponding increase in rates, it proposes to bring natural gas

from the Kern County oil fields to serve its own territory and also to sell natural gas wholesale to the Hanford Gas and Power Company. Applicant further alleges that due to the greater heating value of natural gas it would be cheaper at the same price than artificial gas, and for this reason applicant believes that, together with the Hanford Gas and Power Company, it can develop a market in Tulare and Kings Counties for three hundred million (300,000,000) cubic feet of natural gas per year, and estimates that the saving therefrom to the people served will amount to approximately \$100,000 per annum in fuel expense.

Based on the amount expended by the applicant in the manufacture of artificial gas in 1916, which was about \$36,000, applicant estimates that the cost of an equal amount of natural gas, assuming the full use of the proposed transmission system, would be about \$16,000, resulting in a saving of \$20,000 per year at the present contract price of oil, or about \$36,000 per year at the present market price of oil, and for these reasons states its belief that two-thirds of the cost of the proposed transmission system can be realized by it in five years.

Public hearings were held in this proceeding at San Francisco, and it was finally submitted

on June 15th, 1917. Applicant offered in evidence a report containing estimates of the cost of installing the proposed transmission system and of the increased sales and modifications of its operating expenses which would be effected thereby. According to this report 253,440 feet of 4 inch pipe is to be installed at a cost of 35 cents per foot, or a total cost of \$88,704. A 750,000 cubic foot gas holder is to be purchased and installed at Visalia at a cost of \$35,000, and another holder of 200,000 cubic feet capacity is to be installed at Porterville at an estimated cost of \$13,000. These three items constitute approximately 90 per cent of the \$152,204, which is the total estimated cost of the improvements which the applicant herein is asking for authority to construct.

No convincing evidence was introduced to indicate applicant's ability to obtain and erect this equipment at the costs as estimated. Taking into account the present market prices and availability of material, we are inclined to believe that the system as proposed could not be constructed except at an expense so great that the fixed charges would make the cost of natural gas delivered by this system considerably more than the cost of artificial gas, even at the present high market price of oil. It must

also be noted that applicant has failed to present evidence of such a nature that the Commission would be justified in assuming that a market for 300,000,000 cubic feet of gas yearly can be developed in the near future. The sales of the Central California Gas Company were only 80,266,400 cubic feet in 1916, and those of the Hanford Company were 14,428,000 cubic feet, making a total of combined sales of 94,694,400 cubic feet having a heating value of approximately 600 B.t.u. per cubic foot. In this connection it should be pointed out that the immediate effect of introducing natural gas would be to reduce the present rate of consumption approximately 40 per cent because of the higher heating value of the natural product as compared with artificial gas. The result would apparently be an immediate falling off in the quantity of gas sold from about 80,000,000 cubic feet to approximately 48,000,000 cubic feet. Whether or not the present average volume of gas used per consumer would be equaled or exceeded in the future would depend largely upon the price at which the gas could be sold. At any event, it is probable that the cost to applicant of natural gas delivered to present consumers would, for a time at least, considerably exceed the cost of artificial gas per unit of volume. Applicant would,

under such circumstances, be forced to choose between the necessity of transacting its business at a loss during a new development period, or of applying for an increase in rates to compensate for the reduction in its gross sales.

Applicant has defaulted in making payment of certain sinking fund and interest obligations under its trust deed, and there was introduced at the hearing by applicant a copy of a report of the Los Angeles Trust and Savings Bank reciting such default. Under the terms of the trust agreement foreclosure proceedings may be commenced at any time, and in fact such proceedings are, according to applicant, now threatening. Considering applicant's financial condition, it would appear that grave difficulties would, in all probability, be encountered in financing such a project as that proposed even if the project were <sup>otherwise</sup> entirely feasible. Because of these difficulties and for the further reason that applicant's patrons ~~in Talara County~~ are entitled to early relief from service conditions which appear to be most unsatisfactory, we doubt the wisdom of undertaking an entirely new project at this time. We are not convinced, nor does the evidence justify the assumption, that the benefits which applicant anticipates from the introduction of natural gas can be

realized, at least for several years to come.

Having the best interests of the territory in mind, we cannot, upon the present showing, recommend that applicant be authorized to embark upon the new and comparatively expensive enterprise proposed, because, in the event of failure, applicant would in all probability be incapacitated from meeting the immediate requirements of present and prospective consumers.

While, as we have already indicated, we have considerable doubt as to the feasibility of the project as outlined by applicant, we have no desire to foreclose applicant from presenting further information in support of the petition herein. For the reasons stated, we would recommend that the final decision of the Commission herein be postponed for thirty days from the date hereof, and that within this period of thirty days applicant procure and file with the Commission the following data:

1. Definite quotation signed by present owner, or duly authorized agent of present owner, showing location and quantity of natural gas available, together with price thereof and availability with reference to date of delivery.
2. A description of the necessary pipe, said description to include size, condition as to whether new or second-hand, location, quantity, and quotation of price thereof

delivered, with place of delivery designated, said quotation to be signed by the present owner, or duly authorized agent of the present owner of such pipe.

3. A quotation, including a description, of the major units of the proposed compressor stations, giving present location of such motors and compressors, name of owner, date that same could be delivered and definite cost thereof, such quotation to be signed by the present owner, or duly authorized agent of the present owner of said motors and compressors.
4. Quotation as to cost of holders, which quotation shall include the present location, capacity, condition with reference to being new or second-hand, date that same could be delivered and cost thereof, which quotation shall be signed by present owner of such holders, or duly authorized agent of such owner, together with definite proposal to be signed by party making such proposal, showing cost of dismantling and re-erecting said holders, if said holders are now in use.
5. A detailed estimate of probable gas consumption based on a comprehensive survey of the territory which it is certain that applicant will serve if permitted to construct the proposed gas transmission line.
6. A definite statement of the price at which applicant proposes to supply natural gas to consumers until such time as rates are established for such service by the Commission.

If the above information is not supplied to the Commission in writing by applicant within



thirty days from the date hereof, we will have no recourse other than to recommend that the application herein be dismissed, in which event it will be necessary to seek relief from present unsatisfactory service conditions in some other manner than proposed.

The foregoing Opinion is hereby approved and ordered filed as the opinion of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 21<sup>st</sup> day of July 1917.

Wm. J. Helen  
H. D. Howard  
Wm. Gordon  
Edwin A. Edgerton  
Frank R. Cohen  
COMMISSIONERS