Decision No.________ ORIGINAL

Decision No. 4485

BEFORE THE RAILROAD COMMISSION OF THE

STATE OF CALIFORNIA

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In the Matter of the Application of VALLEY NATURAL GAS COMPANY to have its rates for furnishing natural gas fixed.	:	Application No. 2620

Joseph Haber, Jr. for applicant.

EDGERTON, Commissioner

O P I N I O N

This is an application of the Valley Natural Gas Company asking that its rates for supplying natural gas to certain of its consumers be fixed.

Applicant's property consists of a collection and transmission system for the distribution and sale of natural gas to field consumers in the Midway and Kern Oil Fields. and for the sale of natural gas to distributing corporations in the cities and towns of Bakersfield, Taft, Maricopa and Fellows.

The applicant states that the rates now in effect were established by its predecessor in interest, The California Natural Gas Company, in 1910, with the exception of certain rates fixed by this Commission in Decisions No. 1458 and No. 1532.

It is alleged in this petition that since the purchase of the properties by the applicant in July, 1916, conditions have changed materially, resulting in a great increase in the cost to it of selling gas over that of its predecessor; that there has been a steady and accelerating decrease in the quantity and pressure of gas produced by the wells from which applicant obtains its supply, this decrease in pressure necessitating the compression of a large proportion of the gas; and that serious discrimination exists in the present form of rates under which the gas supplied to many of its consumers is not measured.

Applicant desires to substitute measured service for the present unmeasured service, in order that discrimination may be eliminated, and to have fair and just rates fixed.

At the hearing in this matter held in Bakersfield on February 2, 1917, it was stipulated that, inasmuch as the applicant had submitted insufficient evidence, the data to be obtained from a subsequent investigation to be made by the Engineering Department of this Commission, as well as all previous formal proceedings before this Commission concerning the applicant and its predecessors, should be considered in evidence.

In the past gas has been purchased from the Standard Oil Company and the Honolulu Consolidated Oil Company at pressures sufficient for the transmission requirements of the applicant as a distributing company. Recently, however, well pressures have decreased to such an extent that at present it is necessary to compress the major portion of such gas, and an agreement has been entered into with the Standard Oil Company to perform this service for one cent (1¢) per thousand cubic feet. It is estimated that this item will increase the operating expenses of the company over $50,000 during the year 1917. Since May 1, 1916 the

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gas obtained from the Honolulu Consolidated Oil Company has been purchased on a four ounce basis instead of on the previous five pound basis. This, it is estimated will further increase operating expenses over $10,000 per year.

The applicant sells gas to its field consumers for boiler, furnace and forge purposes at $.07 per thousand cubic feet, the quantity of gas used by each consumer being estimated, the consumer being billed accordingly.

In the past the gas purchased from the Standard Oil Company and the Honolulu Consolidated Oil Company, being unmeasured, has been paid for on a basis of five cents per thousand cubic feet sold, the total sales being estimated. As the gas purchased from the oil companies is at present measured and the Valley Natural Gas Company is billed on a meter basis at five cents per thousand cubic feet, it is necessary for the latter to meter its field consumers. This will necessitate the installation of over 75 orifice meters at an estimated cost of $20,000 and a consequent increase in operating expenses to read and compute same, amounting to over $10,000 annually.

The total investment of the Valley Natural Gas Company on March 1, 1917, based upon the valuation submitted by engineers of the Railroad Commission in application #2172, with additions and betterments from March 1, 1916, is as follows:

TABLE NO. 1

Investment March 1, 1916 (original cost App. 2172)	$498,337.68
Additions and betterments (March 1, 1916 to March 1, 1917)	100,728.56
Total fixed capital March 1, 1917	599,066.24
Additional meter investment	20,000.00
Total fixed capital (after meter installation)	$619,066.24
Materials and supplies	10,373.74
Total	$629,439.98

Brought Forward	
Total	$629,439.98
Working cash capital (1/6 of 1916 operating expenses)	23,098.00
Total	$652,537.98

Applicant's Exhibit No. 3 sets forth an estimate of the operating expenses for the year 1917 as follows:

TABLE NO. 2

Development expense	$ 2,500
Transmission expense	5,200
Distribution expense	4,620
Commercial expense	2,200
General and miscellaneous expense	11,260
Total	$ 25,780
Orifice meter operation	10,200
Total operating expense (not including cost of gas, taxes, etc.	$ 35,980

Inasmuch as the above estimate appears to be reasonable as compared to previous years' expenses and when considered in the light of the applicant's general operation, it has been accepted for the purposes of this proceeding.

The Commission found in its Decision 1458 after a thorough investigation of the probable life of the gas wells of the Midway Field that 7% depreciation annuity was a reasonable rate to be allowed upon these properties. I have used the same rate for the purposes of this proceeding. The fixed charges are as follows:-

TABLE No. 3

Fixed Charges:

Depreciation annuity	$43,334.64
Interest (8%)	52,203.04
Total	$95,537.68

The following table sets forth the gas sales during 1916 and the estimated sales for 1917. This estimate is based upon data filed by the applicant modified by the report of a personal inspection of the territory made by Mr. W. J. Hammond of the Gas and Electric Department of the Railroad

Commission and differs only slightly from an estimate made by Mr. J. F. McMahon, General Manager of the Valley Natural Gas Company.

TABLE NO. 4

	1916 Actual Sale	1917 Estimated Sale
Bakersfield (domestic)	353,928 M cu.ft.	350,000 M cu.ft.
Fellows	8,440	10,000
Maricopa	14,330	15,000
Taft	63,835	70,000
Domestic	11,283	12,000
Gas engine	115,725	135,000
Kern	1,844,946	2,000,000
Midway	2,327,419	3,300,000
Total	4,739,906	5,892,000

Under the present rates the revenue from the estimated sales for 1917 would amount to $451,265.

The unaccounted for gas on the applicant's system during March and April 1917 was 25.9% and 20.7% of the gas purchased respectively; Mr. McMahon estimates that by metering the field consumers losses can be reduced to 15%. On this basis the gas purchased for the year 1917 would be 6,775,800,000 cu. ft. and assuming the same proportion of compression throughout the year as at present the cost of gas would be $387,576. leaving a balance of $63,689 to cover operating expenses and fixed charges.

From the above it is apparent that this company cannot meet its obligations in the future if the present rates continue in force.

In considering this application it must be borne in mind that the Valley Natural Gas Company bought the properties from its predecessor with the avowed intention of gathering and conserving for sale natural gas which is now going to waste, and to extend its field of operation into new and undeveloped territory. Up to the present time the company has exerted no effort to extend its service into new territory. This may be in part due to the present market price of materials. It is clear however that the present rate of 7 cents per thousand cubic feet to field consumers is lower than the company can supply the gas for under the new conditions of operation.

Although the demand for gas for boiler fuel in the Midway field is on the decrease at present, gas engines being substituted for steam, there is still a demand in the Kern field which exceeds the present capacity of the company's transmission lines, and with an equitable rate for this service I believe that the company may be able to increase its sales in this territory provided it extends its facilities and that it will thereby realize a fair return upon its investment.

Upon investigation I find the following rates of the applicant unreasonable inasmuch as these rates, are, under the present conditions, unremunerative. I also find that there is at present no reason for altering the rates for other classes of service:-

TABLE NO. 5

Field consumers (boiler fuel)	$.07 per M cu.ft.
Gas supplied for distribution in Taft	.07 per M cu.ft.
Gas supplied for the Bakersfield steam plant	.07 per M cu.ft.

I recommend the following schedule of rates to be charged in the future for natural gas sold in the various districts as designated:

TABLE NO. 6

Field Consumers	
Midway District (including Rio Bravo)	$.09 per M cu.ft. on 4 oz. basis
Kern District (including Bakersfield steam plant)	.10 per M cu.ft. on 4 oz. basis
Resale in Taft	
Gas supplied for distribution in Taft	.10 per M cu.ft. on 4 oz. basis

Under the rates herein established the revenue based upon the estimate of sales for 1917 would be $526,365. and with these rates in effect the estimated earnings of the company for the year 1917 will be as follows:

TABLE NO. 7

Operating revenues		$526,365
Operating expenses:		
Gas purchased	$387,576	
Other expenses	35,980	
Taxes	31,225	
Total operating expenses		454,781
Balance available for depreciation		$ 71,584
Depreciation annuity		43,335
Surplus available for dividends		$ 28,249
Net return on $657,538		4.3%

Although this can hardly be considered a fair return on the investment, the company has expressed the belief that if a concerted effort is made, the sales to field consumers, especially to those in the Midway field, can be increased considerably over the amount estimated. If this increase is realized, even in part, the company will be in a position to earn a fair return upon its investment.

It should be borne in mind that the proposed rate of 9 cents to the Midway field consumers and that of 10 cents to those of the Kern district is justified only by the fact that it permits the sale by the Valley Natural Gas Company of what would otherwise be excess or wasted gas produced in conjunction with oil production and not subject to storage or conservation without a reduction in the oil production of the fields. These rates should remain in effect only until the requirements of other consumers requiring gas for a higher use make it necessary or advisable to discontinue or modify them.

I submit herewith the following form of Order:

O R D E R

A public hearing having been held in the above entitled proceedings and the same having been submitted and being now ready for decision,

1. The Railroad Commission hereby finds that the rates of Valley Natural Gas Company for certain classes of its gas service are unjust and unreasonable in so far as they differ from the rates herein established.

2. The Railroad Commission hereby finds that the rates herein established are fair and reasonable for gas served to field consumers and for distribution in the City of Taft.

Basing its order on the foregoing findings of fact and on the findings which are contained in the Opinion which precedes this Order,

THE RAILROAD COMMISSION HEREBY AUTHORIZES Valley Natural Gas Company to establish and file with this Commission, within twenty days from date of this order to become effective for gas sales commencing August 1, 1917, the following rates for natural gas to the special class of service designated:

Field and Wholesale Consumers

Applicable to consumers of natural gas for boiler, furnace and forge fuel purposes:

Midway District (including Rio Vrovo)	\$.09 per M cu. ft. on 4 oz. basis
Kern District (including Bakersfield steam plant)	.10 per M cu. ft. on 4 oz. basis

Applicable to sales to distributing companies in the town of Taft and vicinity:

Gas supplied for distribution in Taft :	\$.10 per M cu. ft. on 4 oz basis

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 27th day of ~~June~~ July, 1917.

Max Thelen

Alex Gordon

Edwin O. Edgerton

Commissioners.

MPH