

# ORIGINAL

Decision No. 4636

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

## BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the matter of the application of  
PACIFIC PUBLIC SERVICE CORPORATION  
for certificate of public convenience  
and necessity to furnish gas in the  
counties of Mendocino and Sonoma; to  
issue stock and bonds; to purchase  
gas system of Ukiah Gas Company and  
of Ukiah Gas Company to sell said  
system.

APPLICATION

NO. 3001

Charles M. Mannon for City of  
Ukiah  
Fred W. McConnell for City of  
Healdsburg  
Hoefler, Cook & Snyder and George W.  
Bishop for Applicant.

LOVELAND, Commissioner.

## OPINION

This is an application by Pacific Public Service Corporation for an order authorizing petitioner to construct and operate an artificial gas system and distribute gas in certain portions of Mendocino and Sonoma Counties. Petitioner also asks for authority to acquire the existing gas plant and system of Ukiah Gas Company at Ukiah, and that said Ukiah Gas Company be permitted to sell and con-

vey its said plant and system to petitioner. Petitioner further asks for authority to issue and sell certain stocks and bonds and to execute a deed of trust or mortgage to secure an authorized bond issue of \$5,000,000.00, face value.

Specifically the application asks that the Commission make its order upon each of the following named points:

1. Declaring that it will, hereafter, upon application, issue a certificate that the present and future public convenience and necessity require, and will require, that said PACIFIC PUBLIC SERVICE CORPORATION take over and acquire the generating and distributing system of the Ukiah Gas Company, at Ukiah, California, and construct the proposed gas generating and distributing system covering the territory between the towns of Preston and Windsor, and adjacent territory, Sonoma County, California, as aforesaid, upon such terms and conditions as it may designate, after the said PACIFIC PUBLIC SERVICE CORPORATION shall have obtained the franchises for which application has been made.

2. Authorizing Ukiah Gas Company to sell and PACIFIC PUBLIC SERVICE CORPORATION to purchase the aforesaid gas system of said Ukiah Gas Company at Ukiah, California.

3. Authorizing the issue and sale of Fifteen Hundred (1500) shares of its capital stock of the par value of One Hundred Fifty Thousand (\$150,000.) Dollars.

4. Authorizing the execution and delivery of a deed of trust or mortgage in substantially the form submitted herewith to secure an authorized bond issue of five

million (\$5,000,000.) Dollars, par value, five per cent, forty year, first mortgage bonds, and to issue and sell at this time Three Hundred Thousand (\$300,000.) Dollars, par value of said bonds at ninety per cent of par net.

5. Authorizing from the proceeds arising from the sale and disposition of said Three Hundred Thousand (\$300,000.) Dollars par value of said bonds, and one hundred fifty thousand (\$150,000.) Dollars par value of said stock, the purchase of the aforesaid gas properties, rights and franchises, and the payment of the construction of the gas system between the towns of Preston and Windsor and adjacent territory, Sonoma County, California.

Public hearings were held in this proceeding at Cloverdale, on June 28, 1917, and at San Francisco on August 21, 1917, during the course of which evidence was introduced on behalf of petitioner and for the Commission.

Petitioner's activities in Mendocino County will be limited for the present, under the plan proposed, to acquiring the existing gas plant and system of Ukiah Gas Company at Ukiah. Under the circumstances, the only benefit which could accrue to the inhabitants of Ukiah and Mendocino County through this transaction would arise only from a more efficient and progressive management of this property. This matter will be referred to later herein.

In Sonoma County petitioner proposes to install an oil gas generating plant at Healdsburg and to distribute such gas in Healdsburg, Lytton, Geyserville, Asti, Cloverdale and Preston to the north and to Windsor and intervening territory to the south. It is planned to connect

these several communities with the proposed central plant at Healdsburg by means of a single high pressure gas transmission line.

Sonoma County with the exception of Santa Rosa, Petaluma and Sebastopol and intervening territory supplied from a central plant at Santa Rosa is entirely without gas service.

The plan of petitioner contemplates the following capital expenditure in accordance with estimates prepared by Mr. F. C. Millard.

TABLE NO. I

ESTIMATED CAPITAL INVESTMENT  
of  
PACIFIC PUBLIC SERVICE CORPORATION

Existing gas plant and system at Ukiah	\$45,870.15
Proposed extensions to Ukiah gas system	<u>5,842.48</u>
Total for Ukiah	\$51,712.64
Proposed gas plant at Healdsburg	\$52,286.90
Proposed H.P. Distributing system at Healdsburg	56,514.41
Proposed 3 inch H.P. Transmission line Healdsburg to Cloverdale	64,887.88
Proposed service connections from transmission line	8,282.40
Proposed H.P. Distributing system at Cloverdale	17,894.08
Proposed H.P. Distributing system at Preston	2,581.13
Proposed H.P. Distributing system at Windsor	<u>14,995.88</u>
Total	\$217,442.68
GRAND TOTAL	\$269,155.32

In connection with Application No. 2868 the Commission's engineers made a valuation of the gas plant and

system at Ukiah as of April 1917. This valuation report, which by stipulation is to be considered as being in evidence in this proceeding, is summarized in the following table:

TABLE NO. II

COMMISSION'S APPRAISAL  
of  
UKIAH GAS COMPANY  
as of  
April 1917.

<u>Item.</u>	<u>Estimated Cost to Reproduce New</u>
Landed Capital	\$ 1,000.00
Production Capital	13,249.00
Distribution Capital	21,030.00
General Capital	<u>586.00</u>
Total	\$35,865.00

The principal difference between the appraisal made by the Commission's engineers and that prepared by Mr. F. C. Millard arises from the fact that Mr. Millard allowed 21% for overhead construction expenditures, whereas the Commission's engineers used 14%. Other important differences are due to the fact that Mr. Millard included \$3,784.68 for services from property line to meter installed at the expense of consumers, and further included an item of \$3,555.00 for paving over mains not paid for by the company.

There can be no question but that the report of the Commission's engineers represents more nearly the fair value of this property for the purpose of this application than does the appraisal of Mr. Millard.

No evidence was introduced as to the depreciated

value of the Ukiah Gas properties, but it is not probable that the present condition of these properties would exceed 80% of the cost to reproduce.

As to the feasibility of petitioner's combined Ukiah and Sonoma County project, it is necessary to consider the probable result of operating the properties as planned.

Petitioner proposes to establish a uniform rate of \$1.50 per thousand cubic feet for all gas sold at Ukiah and in Sonoma County. The effect of this rate program would be to increase the present Ukiah rates set forth in the following table:

TABLE NO. III

GAS RATES OF UKIAH GAS COMPANY

REGULAR METER

5,000 cu.ft. and less per month .....	\$1.50 per M cu.ft.
5,000 cu.ft. to 10,000 cu.ft. per mo..	1.35 " " "
10,000 " " 15,000 " " "	1.25 " " "
15,000 " " 30,000 " " "	1.15 " " "

PREPAYMENT METER

15,000 cu.ft. and over per month ..... \$1.10 per M cu.ft.

Minimum Charge 50¢ per Month.

There is now pending before the Commission an application by Ukiah Gas Company for authority to increase the minimum charge for gas in Ukiah from 50 cents to \$1.00 and any other proposed increase in rates and charges would require a further application and showing before the Commission as required by law.

Mr. Millard, for petitioner, estimates that 158 new consumers can be added in Ukiah making a total of 600 for that community, and that the cost of adding these new consumers will be \$5,842.48. It is further estimated by Mr. Millard that the annual revenue per consumer supplied from the Ukiah system will be \$32.00 corresponding to an annual consumption of 21,333 cubic feet of gas per consumer.

In petitioner's brief the estimated annual revenue per consumer of \$32.00 is referred to and is urged is justified by the result of gas operations in Merced, Madera, Hanford, Turlock and Modesto, all towns in the San Joaquin Valley. A much more reasonable basis of comparison is pointed out by Mr. W. J. Hammond of the Commission's Gas and Electric Department, whose estimates are based on the actual experience in Ukiah and in the next three nearest gas plants to Ukiah, being the plants at Santa Rosa, Napa and St. Helena.

The average revenue and sales of gas per consumer in the communities considered by Mr. Hammond are as follows:

TABLE NO. IV

COMPARISON OF REVENUE AND SALES  
For Year 1916

<u>City</u>	<u>Average Revenue per Consumer</u>	<u>Average Gas Consumption per Consumer</u>
Ukiah	\$22.01	15,040 cu.ft.
Santa Rosa	24.60	17,000 "
Napa	23.97	16,600 "
St. Helena	23.84	11,960 "

After careful consideration I am of the opinion that even with the most optimistic view of the situation the probable future sales of gas in Ukiah will not exceed

16,400 cubic feet per consumer per year at an average rate of \$1.50 per 1,000 cubic feet, or an average annual revenue of \$24.60 per consumer.

On the basis of the above figures, which are amply liberal, and assuming that 600 consumers could be obtained, the annual sales of gas in Ukiah would be 9,840,000 cubic feet, from which could be expected an annual revenue of \$14,760.00. If the losses were no greater per mile of main than at present and the company uses are to remain the same as during the year 1916, it would be necessary for petitioner to produce 10,925,000 cubic feet of gas in the Ukiah plant in order to realize the gross revenue of \$14,760.00 above mentioned.

Mr. Millard estimates that the cost of operating the combined system will be 54% of the gross operating revenue and apparently attempts to justify this operating ratio on the basis of the following ~~rather startling~~ unit costs:

TABLE NO. V

ESTIMATED OPERATING COST OF GAS

PER 1000 CUBIC FEET SOLD  
(F. C. Millard.)

Production Expense		
Fuel - 8 gals. at \$0.034		
(\$1.45 per barrel)	\$0.272	
Labor	0.025	
Steam	0.008	
Water	0.020	
Miscellaneous	0.020	
Total Production Cost		\$0.345
Distribution Expense		
Collections	\$0.172	
Office Expense	0.060	
	0.238	
		\$0.470
Total Cost Delivered		\$0.815



Quotations were submitted by petitioner from the Shell Company of California under date of August 31, 1917 and from the Union Oil Company of California under date of August 28, 1917 indicating that the price of fuel oil as of these dates was \$1.45 per barrel f.o.b. Martinez, San Francisco or Oleum.

The present contract price of oil as purchased by Ukiah Gas Company is \$1.40 per barrel f.o.b. Ukiah.

A comparison of the actual cost of gas at Ukiah exclusive of interest, depreciation, city franchise and state taxes as reported for the year 1916, not corrected, and the corresponding estimate submitted by Mr. Millard is shown in the following tabulation:

TABLE NO. VI

COMPARISON OF ACTUAL COST OF GAS  
AS PER ANNUAL REPORT OF UKIAH GAS COMPANY  
for year 1916  
and  
ESTIMATE OF F. C. MILLARD

<u>Item</u>	<u>Reported Actual Cost per M Cu.ft. sold</u>	<u>Millard Estimate per M Cu.ft. sold</u>
Fuel Oil	\$0.499	\$0.272
Other Production Expenses	0.267	0.073
Total Production	\$0.766	\$0.345
Distribution, Commercial and General Expense (Excluding Taxes)	\$0.666	\$0.47
Total Operating Cost	\$1.432	\$0.815

It is interesting to note in connection with this matter that Mr. Millard, in the face of the actual records

at Ukiah and many other plants similarly situated, estimates that only eight gallons of fuel oil is necessary for each 1000 cubic feet of 600 B.T.U. gas sold. Assuming a nominal loss of 10% (which is approximately 30% less than the reported loss in Ukiah during 1916) Mr. Millard's fuel oil requirements would correspond to about 7-1/4 gallons per 1000 cubic feet of gas manufactured, a record which apparently has never been equaled in California for gas having a heating value of 600 British Thermal Units per cubic foot. Mr. Millard's testimony is either a most severe censure of present day oil gas manufacture in California or would indicate an almost inconceivable lack of efficiency on the part of the managers and operators of gas properties in this state. The Commission has heretofore investigated the cost of constructing and operating many gas plants in California and as a result of these investigations it has found nothing to indicate the degree of managerial and operating incompetence which must be apparent if Mr. Millard's assumptions are correct.

The Commission has seldom been moved to adopt any but the most lenient attitude with regard to expert testimony which is apparently biased or misleading and has at all times hesitated to question in its decisions the motives or ability of expert witness appearing before it. In this proceeding, however, I feel justified in calling attention to the fact that the evi-

dence introduced on behalf of petitioner as to probable revenues and expenses is entirely misleading. While I am unwilling to assume that petitioner has deliberately attempted to misinform the Commission, I will say frankly that the evidence referred to is of such a nature as to point to this conclusion, or, as the alternative viewpoint, it must be assumed to indicate a too superficial study of the situation.

Bearing in mind the increased price which will probably have to be paid for fuel oil used in the Ukiah plant after the expiration of the present contract and the 2% franchise tax which will have to be paid to the City of Ukiah in the future, I am of the opinion that the maximum net revenue, which it is reasonable to assume will be available for interest and depreciation from the operations of the Ukiah Gas plant, will be \$1,600.00.

In view of the facts above stated it would not be proper for the Commission to authorize the sale and purchase of the properties of Ukiah Gas Company under any plan by which the public is required to provide the necessary funds, either through the sale of stock or bonds.

With reference to the proposed Sonoma County system of petitioner, we may assume for the purpose of analysis, and in view of the overhead percentages used, that the estimate of petitioner that \$217,442.68 will be required to construct this system is substantially correct. Petitioner's assumption as to the probable number of consumers which would be supplied from this proposed system, the

probable gas consumption per consumer and the net revenue which would be available for interest and depreciation are not warranted by the facts.

The number of possible consumers to be supplied with gas from the proposed Healdsburg plant are assumed by petitioner to be as follows:

TABLE NO. VII

ESTIMATED NUMBER OF CONSUMERS  
TO BE SUPPLIED IN SONOMA COUNTY  
(F. C. Millard)

<u>Location</u>	<u>Estimated Population</u>	<u>Est. No. of Consumers</u>	<u>Consumers per 1000 Population</u>
Healdsburg	3,200	1,000	312.5
Cloverdale	1,000	200	200.0
Preston	100	26	260.0
Windsor	525	150	285.7
Sub Total	4,825	1,376	Ave. 285.2
On Transmission Line		265	
Total		1,641	

According to an analysis submitted by Mr. Hammond, for the Commission, the average number of consumers supplied in 1916 by the four gas plants nearest to the proposed plant at Healdsburg was about 184 per 1000 of population. The highest number of consumers in proportion to the population was in Napa where the population is about 6,500 and where 1,329 consumers are supplied, or about 204 per 1000 of population.

I am convinced that petitioner cannot reasonably expect, at least for a number of years, to exceed the showing made in Napa and on this basis the maximum number of consumers to be secured in Healdsburg, Cloverdale, Preston and

Windsor would be 984. Assuming that petitioner has overestimated the probable number of consumers along the transmission line to the same extent that consumers in the several communities have clearly been overestimated, the number of these consumers would be reduced from 265 to 190. Using the corrected figures, the probable maximum number of consumers of gas to be supplied from petitioner's proposed Sonoma County system would be 1,174 instead of 1,641.

Mr. Millard, for petitioner, estimates the cost of gas in the proposed Healdsburg plant on the same basis which has hereinbefore been referred to in discussing the situation at Ukiah. This information is set forth in Table No. V.

After correcting for the freight on oil from tidewater to Healdsburg, which petitioner has apparently overlooked, and making other necessary modifications in petitioner's estimated cost of gas which have already been discussed in connection with the situation at Ukiah, I find that it would be unreasonable to assume that the net revenue, available for interest and depreciation, from the operation of the proposed Sonoma County system would exceed \$7,300.00.

Considering the entire combined project and assuming that \$259,150.16 represents the total capital expenditure necessary, it is barely possible that when 1,774 consumers are connected a net earning, available for interest and depreciation, of somewhat less than 3½% could be realized under present conditions.

Public convenience and necessity does not and cannot require that private capital engage in a new public utility enterprise which is foredoomed to failure, nor can the

public reasonably expect the use, except possibly during time of national emergency, of private property and capital without compensation. On the other hand if public spirited or charitably inclined individuals or groups of individuals desire unselfishly to devote their own wealth to the public good, this Commission, as a public body, would be the last to criticize such action.

While, as I have already indicated, there is considerable doubt as to the practicability of the enterprise, I have no desire to prevent applicant from carrying out its proposed development provided the promoters of the enterprise feel confident of its success and are will to demonstrate such confidence by investing at least \$200,000 of their own money. The testimony does not indicate that they intended to invest any of their own funds.

I would recommend, under the circumstances, that the final decision of the Commission herein be postponed for 60 days from date hereof and that within this period of 60 days the promoters of the enterprise submit proof to the Commission that they are in a position to invest at least \$200,000 of their own

money in the plant and system to be purchased and constructed, and further, are willing to make such investment.

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

Dated at San Francisco, California, this 13<sup>th</sup>  
day of September, 1917,

Max Thelen

H. H. Lawrence

Edwin O. Edgerton

Commissioners.