

ORIGINAL

Decision No. 4682

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BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application
of CITRUS BELT GAS COMPANY for
an increase of gas rates.

} APPLICATION NO. 2787

P. J. Dubbell and Z. T. Bell
for Applicant
F. L. Leonard, City Attorney,
for Redlands
M. O. Hert for Colton.

EDGERTON, Commissioner.

O P I N I O N

This is the application of Citrus Belt Gas Company for an increase of its rates for gas in the cities of San Bernardino, Redlands, Colton and Corona.

Applicant operates an artificial gas plant in San Bernardino serving that city and Colton, another in Redlands and a third in Corona. In the latter two cities applicant is the only gas company serving, while in San Bernardino and Colton it competes with Southern California Gas Company.

The company alleges in effect that its rates have

not, in the past, returned it a fair rate upon its investment; that the cost of oil has materially increased and that an increase of rates is necessary to cover such increased oil cost to enable it to continue to earn at least the net return enjoyed in 1916. In this application Citrus Belt Gas Company requests authority to increase its rates for artificial gas sufficient only to reimburse it for the increased operating expenses caused by the advanced price of fuel oil used in manufacture of gas.

Owing to the competitive conditions existing in San Bernardino and the fact that there is pending before this Commission an application by Southern California Gas Company (App. No. 1853) for a determination of rates in San Bernardino, hearing on which will be held in the near future, it appeared advisable to postpone hearing in this application insofar as it refers to rates in San Bernardino and Colton until the Southern California Gas Company's application is heard.

Hearings were held in the above entitled matter at Redlands on August 31st and at Corona on September 1st, at which time testimony and evidence were introduced relative to the rates for those cities respectively.

It appears advisable, under the conditions existing, that an order be issued in this matter relative to Redlands and Corona at the present time and a later decision to be issued relative to San Bernardino and Colton. I will, therefore, discuss the evidence as it affects the matter of rates in the cities of Redlands and Corona.

REDLANDS

The existing rate charged by applicant in Redlands for gas of approximately 600 B.T.U. quality is:

Rate \$1.20 per 1,000 cubic feet

Minimum Bill 50¢ per Meter per Month.

This rate was reviewed by the Commission in 1914 and was determined at that time to be reasonable. The determination was made in connection with Case 604, City of Redlands vs. Citrus Belt Gas Company, Decision No. 1978 (Opinions and Orders of the Railroad Commission of California, Vol. 5, Page 801).

Assistant Engineers L. S. Ready and W. J. Hammond of the Commission's Gas and Electric Department, submitted a report on the application setting forth the capital, revenue and expense, and the increase in costs resulting from advanced price of oil. No valuation was made, but the Commission's previous findings as to value, plus additions and betterments, were used.

The financial showing for 1916 for the Redlands plant is set forth as follows:

| | |
|---|---------------------|
| Capital Basis | \$285,000.00 |
| Gross Revenue | \$ 60,751.38 |
| Operating Expenses exclusive of Depreciation | 36,378.87 |
| | <u>\$ 24,372.51</u> |
| Net Rate for Int. & Depr. | 8.54% |
| Net Rate for Interest | 6.34% |

The statistics for the year 1916 shows the following:

| | |
|-------------------------|-------------------|
| (a) Barrels of oil used | 15,261 bbls. |
| Total gas manufactured | 67,158,500 Cu.ft. |

| | |
|-----------------------------|-----------------------|
| Total gas sold | 48,553,100 Cu.ft. |
| Quality of gas | 608 B.T.U. per Cu.ft. |
| Average number of consumers | 2,259 |

| | |
|---------------------------|---------------|
| (b) Gas sold per consumer | 21,500 Cu.ft. |
| Revenue per consumer | \$26.90 |
| " per 1000 cu.ft.sold | \$ 1.25 |

During the year 1916 the company paid 90.5¢ per barrel for oil delivered at Redlands. At the time application was filed the price paid was \$1.43 and at time of hearing applicant was paying \$1.63 per barrel delivered at Redlands. Mr. Z. T. Bell, General Manager of applicant, testified that it was not possible to obtain a contract for oil at any fixed price but that the company was forced to pay market quotations.

The result of this present increase alone, based on 1916 operations, would be an increase in operating expenses of \$11,064.25 or 22.8¢ per 1,000 cu.ft. sold. Assistant Engineer Ready reported that applicant should be able to economize in the use of oil, reducing the duty from 13.18 gals. per 1,000 cu.ft. sold to at least 12 gals. Even with this greater economy the gas delivered to its consumers will cost applicant 19.7¢ per 1,000 cu.ft. more than in 1916. Advanced price of other material and of labor will tend to further increase the cost. If applicant is not granted relief its net revenue will be reduced from 6.34% to approximately 3-1/4% on the investment.

There is little hope of a reduction in the price of oil in the near future and it is possible that further increases may occur. Applicant may be able to increase its sales by a proper form of rate owing to the increase in cost

of other fuels. However, any increase of rates is, in general, accompanied by a loss of some business and under the present conditions it is hardly probable that applicant will more than keep its sales equal to those of 1916. Forced economies on the part of consumers due to general increase in cost of all supplies will further tend to decrease the sale of gas, especially at increased rates.

Applicant's business has not increased materially during the past 4 years. In fact applicant had 2,275 consumers in 1913 and sold 47,626,000 cu.-ft. of gas as compared with 1916 report of 2,259 consumers and sales of 48,553,100 cu.-ft. The population of Redlands was estimated to be 12,000 in 1916 as compared with 1913 estimate of 11,200.

Applicant requests only to increase its rates to offset the increased price of oil although cost of other materials and labor have increased.

Careful consideration must be given the public in increasing rates during this national crisis when the prices of all commodities have materially increased, in many cases far out of proportion to the increase in the public's earning power. A corporation must expect to not only economize insofar as possible but in many instances may have to forego a considerable part of its profits during this period. I believe, however, in this instance, considering the previous low return earned, that applicant is entitled to an increase in rates which will, as near as possible, offset the increased price of oil. Increased rates to cover advanced cost of oil will not, in my opinion, make it possible for applicant to net even its former return owing to probable reduction in sales and increase of other costs. However, I do not believe it advisable at this time to increase the rates further than herein set forth.

The average rate must be increased to \$1.437 per 1,000 cu.-ft. in order to reimburse applicant for the increased cost of oil and increased state taxes even with the reduced oil consumption.

A uniform rate of \$1.40 per 1,000 cu.-ft. was suggested by applicant at the hearing. This would not applicant approximately \$1.44 per 1,000 cu.-ft. sold but would tend materially to decrease sales and thus increase the cost per 1,000 cu.-ft. above that estimated. Applicant later, by letter, urged a higher rate. As discussed above, with the proper form of rate applicant will be able to more nearly continue its present sales and the following rate appears most advisable for the conditions existing in Redlands. This rate will result in an average return of \$1.426 per 1,000 cu.-ft. and will assist in increasing applicant's larger sales.

RATE:

| | | | | | | | |
|-------|--------|---------|-----------|-----|--------|----------|---------|
| First | 3,000 | cu.-ft. | per month | ... | \$1.45 | per 1000 | cu.-ft. |
| Next | 7,000 | " | " | ... | 1.25 | " | " |
| " | 15,000 | " | " | ... | 1.10 | " | " |
| Over | 25,000 | " | " | ... | .90 | " | " |

Minimum Bill 60¢ per Meter per Month.

CORONA

The existing rate for gas at Corona is:

Rate \$1.50 per 1,000 cubic feet

Minimum Bill \$1.00 per Meter per Month.

The reasonableness of this rate was investigated by the Commission in 1914 in Case No. 662, City of Corona vs. Citrus Belt Gas Company, and was found to be a reasonable rate in Decision No. 1979 (Opinions and Orders of the Railroad Commission of California, Vol. 5, Page 808).

The financial statement for 1916 as reported by the Commission's engineers was:

| | |
|---------------------------------|-------------|
| Capital | \$63,000.00 |
| Gross Revenue | \$14,306.05 |
| Operating Expenses | 9,886.26 |
| Net Revenue | \$ 4,419.79 |
| Rate of Return for Depr. & Int. | 7% |
| Rate of Return for Interest | 4.8% |

Statistics:

| | |
|-------------------------------------|-------------------|
| (a) Oil used | 3,307 bbls. |
| Gas manufactured | 10,784,000 cu.ft. |
| Gas sold | 9,257,100 cu.ft. |
| Quality of gas sold | 608 B.T.U. |
| Number of consumers | 412 |
| (b) Sales per consumer per year ... | 22,400 cu.ft. |
| Revenue per consumer | \$34.80 |
| Ave. Revenue per 1000 cu.ft.... | \$1.549 |

The same increase has occurred in the price of oil at Corona as at Redlands, the cost in 1916 being 85½¢ per barrel and at time of hearing the price was \$1.58 per barrel delivered at Corona. On the basis of 1916 operations the increased price of oil would represent an increase in cost of gas of 25.9¢ per 1,000 cu.ft. sold. To maintain the same net return this would be increased to 27.5¢ to cover additional taxes, making an average rate of \$1.824 per 1,000 cu.ft. sold.

It was estimated that upon an oil duty of 13 gallons per 1,000 cu.-ft. sold, which appears reasonable considering the plant operations, the increased operating costs would be 20½¢, making an average cost for the same net rate of return of \$1.751 per 1,000 cu.-ft.

The question of rates in Corona presents a difficult problem. The rate at present is as high as is generally considered advisable. There appears no prospects of increasing the company's business and there is danger of material loss of business with an increase of rates to \$1.75 per 1,000 cu.-ft. There appears no marked change in the number of consumers during the past two years and the evidence is to the effect that there is little prospect of additional sales to be obtained in the future. It was the opinion of the Commission's engineers reporting on the matter that little benefit would be derived by applicant from an increase of rates equal to the increased cost. It is to be noted that at the existing rate applicant's net return will be reduced to approximately 2% on the total investment.

Applicant urged that it be granted authority to put in a block schedule with a gross rate of \$1.75 for the first block with a 10¢ per 1,000 cu.-ft. discount for prompt payment, alleging that owing to increased cost of other fuels its sales would not be materially decreased and further that economies in collections would result from application of prompt payment discount rates.

In view of the conditions under which applicant is operating in Corona and especially the small return to

be obtained under the present rates I believe applicant should be granted authority to put in such a discount rate although there is some question as to its advisability.

I recommend, therefore, the following rate:

| | | | | |
|----------|-------------------------|-------|--------|------------------|
| First | 2,000 cu.-ft. per Month | | \$1.75 | per 1000 cu.-ft. |
| Next | 8,000 " " " | | 1.50 | " " " |
| " | 15,000 " " " | | 1.25 | " " " |
| All over | 25,000 " " " | | 1.10 | " " " |

Minimum Bill \$1.00 per Meter per Month.

Prompt Payment Discount: A discount of 10¢ on all bills of \$1.75 or less and 10¢ per 1,000 cu.-ft. for all bills in excess of \$1.75 will be made provided bills are paid within 10 days of date of presentation.

The above rate will net applicant an average rate of \$1.622 per 1,000 cubic feet exclusive of forfeited discounts, which latter should increase the same to \$1.65. For the month of March there were no consumers using more than 10,000 cubic feet and any sales which applicant can encourage beyond that amount per month will be beneficial in increasing the net return.

I recommend the following form of Order:

O R D E R

Citrus Belt Gas Company having applied to increase its gas rates and hearings having been held at Redlands and Corona relative to the rates in those cities and the matter being submitted and ready for decision, and

The Railroad Commission finding as a fact that the existing rates under present conditions of cost of operation

are unjust and unreasonable and that applicant should be granted authority to increase its rates to those set forth in this order,

IT IS HEREBY ORDERED that:

1. Citrus Belt Gas Company be and the same is hereby authorized to charge and collect the following rates for gas of 600 B.T.U. per cubic foot average heat content in the city of Redlands. Such rates shall be applicable to all regular meter readings made on or after October 15, 1917 provided Citrus Belt Gas Company shall have filed with the Commission said rates on or before October 10, 1917.

RATE:

| | |
|---|--------------------------|
| First 3,000 cu.-ft. per Meter per Month | |
| | \$1.45 per 1,000 cu.-ft. |
| Next 7,000 cu.-ft. per Meter per Month | |
| | \$1.25 per 1,000 cu.-ft. |
| Next 15,000 cu.-ft. per Meter per Month | |
| | \$1.10 per 1,000 cu.-ft. |
| All over 25,000 cu.-ft. per Meter per Month | |
| | \$.90 per 1,000 cu.-ft. |

Minimum Bill 60¢ per Meter per Month.

2. Citrus Belt Gas Company be and the same is hereby authorized to charge and collect the following rates for gas of 600 B.T.U. per cubic foot average heat content in the city of Corona. Said rates shall be applicable to

all regular meter readings made on or after October 15, 1917 provided Citrus Belt Gas Company shall have filed with the Commission said rates on or before October 10, 1917.

RATE:

| | |
|--|-------------------------|
| First 2,000 cu.ft. per Meter per Month | \$1.75 per 1,000 cu.ft. |
| Next 8,000 cu.ft. per Meter per Month | \$1.50 per 1,000 cu.ft. |
| Next 15,000 cu.ft. per Meter per Month | \$1.25 per 1,000 cu.ft. |
| All over 25,000 cu.ft. per Meter per Month | \$1.10 per 1,000 cu.ft. |

Minimum Bill \$1.00 per Meter per Month

Prompt Payment Discount: A discount of 10¢ on all bills of \$1.75 or less and 10¢ per 1,000 cu.ft. for all bills in excess of \$1.75 will be made provided bills are paid within 10 days of date of presentation.

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 26th day of September, 1917.

Max Thelen

H. B. Howard

Edwin O. Edgerton

Francis R. Dyer
Commissioners.