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ORIGINAL

Decision No. 4881

Decision No. _____

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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CITY OF WHITTIER,

Complainant,

-vs-

SOUTHERN COUNTIES GAS COMPANY,
OF CALIFORNIA,

Defendant.

CASE NO. 1049

Jeff G. Wingert, City Attorney,
for Complainant.
Hunsaker & Britt and LeRoy M.
Edwards, for Defendant.

BY THE COMMISSION:

O P I N I O N

The complaint in the above entitled matter alleges that defendant's rate of \$1.20 per thousand cubic feet for natural gas served to the inhabitants of Whittier is in excess of a just and equitable rate and prays that the Commission fix a just rate.

Defendant in its answer alleges that its rates are as shown in Table No. I below; denies that it charges a rate

of \$1.20 except as shown; alleges that its rates are fair, just and equitable, and that a lower rate would not enable it to earn a fair return upon its investment and requests that the complaint be dismissed. A public hearing of the case was conducted by Examiner Westover at Whittier.

The principal theory of complainant's case, as presented, was that defendant was making lower rates for natural gas in other territory than in Whittier, and that it had agreed to reduce its rates to a basic rate of \$1.10 net per thousand cubic feet on July 1, 1917. Particular reference was made to the rates in Orange, Santa Ana, Anaheim and Fullerton, Orange County, where the highest rate is 75¢ per 1,000 cubic feet and in Pomona where the top rate is \$1.10 per 1,000 cubic feet as compared with \$1.20 per 1,000 cubic feet in Whittier. The testimony of defendant was to the effect that soon after natural gas was introduced into Whittier it promised to later make a reduction in rates provided the first year's operation showed that such a reduction was justified. In February, 1917, Southern Counties Gas Company definitely offered to put into effect on July 1, 1917, rates which would result in a material reduction from the present rates provided gas bills were paid within 15 days of presentation, and upon condition that the agitation for lower gas rates be dropped by the Chamber of Commerce. The offer, however, was not accepted.

We will first consider and discuss rates for Whittier without particular regard to any previous discussion between the parties as to what rate should be established there, and without regard to rates established in other territory, and thereafter consider the question of discrimination between districts and cities.

Defendant was incorporated February 23, 1911 and subsequently acquired by purchase a number of artificial gas plants and properties in Los Angeles and Orange Counties, including the production and distribution plant serving Whittier, and which it has since operated. Since acquiring these various systems defendant has, from time to time, extended natural gas transmission lines to the several systems and is now serving natural gas to its customers in place of artificial gas.

In the latter part of 1915 defendant arranged, at the earnest solicitation of the Chamber of Commerce of Whittier, to bring in natural gas from the Coyote Hills field, and for that purpose later laid a four inch transmission main about fourteen miles long to Whittier. Service of natural gas in Whittier was commenced about February 1, 1916.

The ordinance rate for artificial gas which defendant found in effect in Whittier when it purchased the system on April 1, 1911, from Southern California Edison Company, and defendant's new monthly rates for natural gas for domestic and industrial use are shown in the following table:

TABLE NO. I

GAS RATE SCHEDULES

WHITTIER

(1) Artificial Gas Rate Effective April 22, 1912. (Ordinance Rate)

Up to 8,300 cu.ft. per mo. ... \$1.20 per 1,000 cu.ft.
 Between 8,300 and 10,000 cu.ft.
 per month\$10.00 for entire consumption.
 All over 10,000 cu.ft. per mo. \$1.00 per 1,000 cu.ft.

Minimum Bill \$1.00 per Month per Meter.

(2) General Domestic and Commercial Rate for Natural Gas:

First	2,000	cu.ft.	per	mo.	..	\$1.20	per	1,000	cu.ft.
Next	3,000	"	"	"	..	1.10	"	"	"
"	10,000	"	"	"	..	.80	"	"	"
"	15,000	"	"	"	..	.60	"	"	"
"	20,000	"	"	"	..	.40	"	"	"
Over	50,000	"	"	"	..	.30	"	"	"

Minimum Bill \$1.00 per Meter per Month.

(3) Special Off Peak Industrial Rate *

First	2,000	cu.ft.	per	mo.	..	\$1.20	per	1,000	cu.ft.
Next	3,000	"	"	"	..	1.10	"	"	"
"	5,000	"	"	"	..	.50	"	"	"
"	10,000	"	"	"	..	.40	"	"	"
All over	20,000	"	"	"	..	.20	"	"	"

Minimum Charge \$1.00 per Month.

* Applicable to service where heavy de-

demand is not coincident with heavy demand hours of domestic consumers. Subject to shut-off on 30 minutes notice.

In addition to schedules shown in Table No. I there is an industrial rate schedule for gas engine service varying from 30¢ per 1,000 cu.ft. for the first 200,000 to 20¢ per 1,000 cu.ft. for all over 500,000 cubic feet.

The natural gas now served in Whittier contains practically twice the heating value of the manufactured gas previously served. The natural gas contains in excess of 1100 British Thermal Units per cubic foot and the manufactured approximately 575 units. This is equal to a reduction of approximately 40% in the artificial gas rate where the natural gas product is served at the same price per 1000 cu. ft. The result of the introduction of natural gas into Whittier was a reduction in sales from 1930 cubic feet per consumer in March, 1915, to 1030 cubic feet per consumer in March, 1916. Revenue was reduced approximately 40% without an equal reduction in expense.

Following the introduction of natural gas defendant at once began a very vigorous campaign to increase the consumption of gas. The result of this campaign is shown in the increase in revenue in Whittier under the same rates from \$1,931.95 in July, 1916, to \$3,115.90 in June, 1917. The domestic and commercial sales increased to approximately 2,170 cu.ft. for month of March, 1917, due largely to increased use of gas for heating and other purposes for which artificial gas was not used, and to the fact that March, 1917, was cooler than usual in Whittier. Defendant

estimates that as a result of its house to house canvass, it now supplies 90% of the possible cooking and lighting business in Whittier. It believes that sale of gas for heating purposes can be still further materially increased.

The defendant submitted an inventory and estimated cost to reproduce new of the Whittier gas properties by W. A. Baehr as of February 1, 1916, used in other matters before the Commission, plus cost of net additions and betterments to June 30, 1917. The properties listed in said appraisal include not only property in Whittier but also a prorata of general capital based upon the relative number of consumers in Whittier. It was necessary to prorate certain of the local capital owing to the fact that service is rendered to consumers outside of the City of Whittier, in the Company's Whittier District. The appraisal submitted is summarized as follows:

TABLE NO. II

APPRAISAL OF WHITTIER GAS PROPERTY

BY W. A. BAEHR

AS OF FEBRUARY 1, 1916

Plus

NET ADDITIONS AND BETTERMENTS

To

JUNE 30, 1917

	<u>Percent Charge- able to Whittier</u>	<u>Amount</u>
General capital including office furniture, automobiles and certain overhead costs	4.2%	\$1,087.53
Whittier Artificial Gas Plant	100 %	41,277.75
Gas Transmission Line from Oil Fields	97.6%	23,044.44
Distribution System - Whittier	100 %	85,142.58
Whittier District General Capital including store-room furniture and		

	<u>Percent Charge- able to Whittier</u>	<u>Amount</u>
Brought Forward		\$150,552.30
fixtures (about 60% of the amount being material and supplies)	84.9%	20,398.09
Working capital (2 mos. average expense)	84.9%	4,160.10
Organization Expense, Prorata		<u>1,516.27</u>
Total		\$176,626.76

No detailed check of the inventory and valuation was made in connection with this hearing. Mr. L. S. Ready, Assistant Engineer in the Gas and Electric Department of the Commission, stated that from general comparison with other valuations of closely similar properties he considered the amount of \$176,626.76 a reasonable estimated rate base for a system of the size and extent of the Whittier gas system. From a further consideration of the testimony, we consider the estimate reasonable.

The valuation includes the estimated cost of the artificial gas plant and the entire transmission main to Whittier except for proportion deducted for services direct from the main. Complainant questioned the inclusion of these because, first, the artificial gas plant was not in use, and second, the transmission main has been extended and is being used to supply the districts north of Whittier including Monrovia, Arcadia and Sierra Madre.

A part of the gas production plant is used in connection with the distribution of natural gas, and only a part, such as generators and accessories, might be considered as not operative. Considering the fact that the artificial plant was constructed and operated in good faith

and further that it remains at this time as an insurance of service, it should be retained for the present as used and useful. We, therefore, allow the entire cost of the plant. The pipe line from the oil wells has been extended so that it now transmits gas not only to the Whittier District but to Monterey Park and vicinity, El Monte and vicinity, and to the Monrovia-Arcadia-Sierra Madre District. The initial investment in the pipe line to bring the gas from the field to Whittier was charged to Whittier District although the line has been extended beyond Whittier. The subsequent extensions have been charged to the communities to which gas was transmitted. In this instance, however, the line to Whittier will not, in the future, be sufficient to much more than supply the Whittier requirements. A new line is now under consideration which will connect direct to the Monrovia-Arcadia-Sierra Madre district. With the completion of this line the Whittier line, as far as Whittier, will be used almost solely for the service of that city. We have, therefore, not deducted any capital from this account.

Defendant submitted an earning statement for the year ending June 30, 1917, the fifth to seventeenth months of natural gas service, which showed for the 12 months a net earning for interest and depreciation of 7.35% upon the above valuation basis, a rate less than that usually allowed by the Commission under similar circumstances. The earnings for interest and depreciation for the first six months of the period were at the rate of approximately

6.1% and for the last six months ~~of~~ about 9%. This increase is due in part to the greater normal use during spring months than in fall and to the increase in use of gas recently from the company's development of business. A suitable annual sinking fund to provide for depreciation would amount to about 2.2% upon ^{the} above valuation.

TABLE NO. III

STATEMENT OF EARNINGS IN THE CITY OF WHITTIER

TWELVE MONTHS ENDING JUNE 30, 1917.

Gross Income		
Gas Sales	\$35,894.09	
Store Profits	<u>858.24</u>	\$36,752.33
Operating Expenses		
Production	\$ 6,349.04	
Transmission	556.68	
Distribution	6,605.98	
Commercial	5,321.19	
General	2,922.85	
Taxes 5.6% Gas Sales	<u>2,010.07</u>	\$23,765.81
Net Income before providing for Depreciation		<u>\$12,986.52</u>
Per cent Income upon Investment per annum before providing for Depreciation		7.35%

The evidence shows that defendant has not correctly charged replacement costs. All labor charges have been included in maintenance while cost of material abandoned has been deducted from capital, and cost of material installed added to capital. The result has been to in-

crease the maintenance cost. Depreciation reserve to cover replacements has not been set aside.

Defendant has been expending considerable money and labor in the developing of its gas sales in Whittier and adjacent territory. This expense was absolutely necessary in order that defendant could increase sales sufficient to earn a reasonable return on its investment at the existing rates. Strictly speaking, this development cost should not be charged entirely to existing consumers, but partly to suspense to be prorated to the future larger sales resulting from such expense. Corrections for the above items will result in a reduction of the year's operating expenses chargeable to the year's business. Such reductions in operating expenses should be partially offset by additional earnings to cover previous losses resulting from introduction of natural gas and the accompanying reduction in revenue.

The company estimates a considerable increase in business for the ensuing year, though probably not as marked an increase as occurred during the past twelve months. Considering the increasing cost of other forms of fuel at the present time the company should realize a greater increase than it anticipates.

The net earnings for the ensuing year, after correcting for the deductions and additions referred to above, cannot ^{be} estimated with the information available to us satisfactory degree ^{of} accuracy as it desirable. Defendant's development expenses in the effort to restore its fall-

en revenues have been large. The development process is not complete and the revenues will continue to increase materially. This has been the history of other localities where natural gas has been introduced.

The net earnings for the ensuing year will, from consideration of the evidence as to operating expenses and growth of business, exceed 8% return exclusive of depreciation.

We will now refer to the question of discrimination between districts and cities.

The rate in the principal cities of Orange County (75¢ per 1,000 cu.ft. for the smaller sales) was voluntarily put into effect when natural gas was first introduced. Defendant has since contended that the rate does not yield a fair return and so testified in the present case. No records were introduced by either party setting forth the facts regarding the actual net return.

The cities of Fullerton, Santa Ana and Anaheim do not differ materially from Whittier and there cannot be any reasonable justification for a 45¢ differential in the rate. We question that a difference in the net return can account for any great amount of the difference.

The rates for similar service in Garden Grove, West Orange, El Modena and other of the smaller towns in Orange County commences with \$1.00 per 1,000 for the first 2,000 cu.ft., 80¢ per 1,000 for the next 3,000 cu.ft., with a further reduction for larger consumptions. These rates were put in effect voluntarily by the company and for the smaller consumptions are materially lower than in Whittier.

It was impossible to determine the reasonableness

of the rates in Pomona from the investigation in Case No. 1051 owing to the fact that natural gas had been served in Pomona but one month at the time of the hearing. Pomona is, however, a city closely comparable in size and gas service with Whittier and defendant continued the existing top rate of \$1.10 per 1,000 cu. ft. there, reducing the rate for larger consumptions, so that the average rate, under certain conditions, is less than in Whittier.

The rates of defendant in the smaller communities in eastern Los Angeles County which are served with natural gas from the same oil fields and which require a transmission beyond Whittier of over 15 miles are, under certain conditions, materially lower than those charged in Whittier. The schedule of rates for domestic and commercial service in Monrovia and Sierra Madre is as follows:

First	1,000	cu. ft.	per month	..	\$1.25	per	1,000	cu. ft.
Next	1,000	"	"	..	1.10	"	"	"
"	3,000	"	"	..	.90	"	"	"
"	15,000	"	"	..	.70	"	"	"
"	30,000	"	"	..	.50	"	"	"
All over	50,000	"	"	..	.40	"	"	"

Prompt Payment Discount

A discount of 10% per 1,000 cu. ft. will be allowed for all gas in excess of 1,000 cu. ft. if bill is paid within 15 days of presentation.

A comparison of the bills under this rate and that now in effect in Whittier shows that except for smaller consumptions the net rate in Monrovia is materially lower than Whittier.

		B I L L	
		<u>Whittier</u>	<u>Monrovia</u>
		Net	Net
Minimum Bill		\$1.00	\$1.00
Cu.-ft. per Mo.	1,000	1.20	1.25
	2,000	2.40	2.25
	5,000	5.70	4.65
	15,000	13.70	10.65
	20,000	16.70	13.65
	30,000	22.70	17.65
	50,000	30.70	25.65

The net rates in the municipalities of east Los Angeles County are the same as in Monrovia.

It is apparent from the above that the defendant has granted a much lower rate for all but the smaller consumers in the small municipalities in eastern Los Angeles County.

We must conclude from an analysis of the evidence in this case that the defendant has been and is discriminating against Whittier in the rates charged for gas service. Such discrimination should be removed. Defendant has voluntarily put into effect in other communities rates lower than those charged in Whittier, and we must assume either that it is earning a fair return under those rates and can do the same in Whittier or that defendant is willing to operate for a lower rate of return in the other municipalities than it desires the Commission to allow in estimating the rates to be charged in Whittier.

Defendant has signified its intention to request a revision of its rates throughout its entire territory. To date no such application has been received. In case such request is made the matter of reasonable rates and discrimination will be fully determined.

The discrimination as set forth herein should be removed in so far as it can be determined from the evidence at hand.

The rates herein set forth are calculated from the evidence to be just and reasonable.

ORDER

City of Whittier having filed complaint that rates for gas service charged by Southern Counties Gas Company in the City of Whittier are unjust and unreasonable, and a public hearing having been held and the case being submitted and now ready for decision,

The Commission hereby finds as a fact that the rates herein established for general domestic and commercial service and special off-peak industrial service of natural gas in the City of Whittier are just and reasonable and that the rates now in effect for said service in the City of Whittier are unjust and unreasonable insofar as they differ from said rates established by this order.

Basing its order upon the above finding of fact and the findings set forth in the opinion preceding this order,

IT IS HEREBY ORDERED that

Southern Counties Gas Company be and the same is hereby ordered to file with the Railroad Commission within 20 days after date of this order and make effective for the regular meter readings made on or after November 25, 1917, the following rates:

TABLE NO. I

GENERAL DOMESTIC AND COMMERCIAL SERVICE

TERRITORY:

City of Whittier.

TABLE NO. I

CHARACTER OF SERVICE

This schedule applies to sale of Natural Gas of approximately 1100 B.T.U. per cubic foot for general domestic and commercial service for lighting, cooking, heating, etc.

RATE:

First	2,000	cu.ft.	per	Meter	per	mo.	\$1.10	per	1000	cu.ft.
Next	3,000	"	"	"	"	"	.80	"	"	"
"	15,000	"	"	"	"	"	.60	"	"	"
"	30,000	"	"	"	"	"	.40	"	"	"
All over	50,000	"	"	"	"	"	.30	"	"	"

Minimum bill \$1.00 per month per meter

TABLE NO. II

SPECIAL OFF-PEAK SERVICE

TERRITORY:

City of Whittier.

CHARACTER OF SERVICE:

This schedule applies only to industrial consumers whose hours of heavy demand, if any, are not coincident with the heavy demand hours of domestic consumers. Consumers of this class may be shut off on thirty minutes notice in the event of an actual or threatened shortage of gas.

RATE:

First	2,000	cu.ft.	per	Meter	per	mo.	\$1.10	per	1000	cu.ft.
Next	3,000	"	"	"	"	"	.80	"	"	"
"	5,000	"	"	"	"	"	.60	"	"	"
"	10,000	"	"	"	"	"	.40	"	"	"
All over	20,000	"	"	"	"	"	.20	"	"	"

Minimum bill \$1.00 per month per meter

Rates for other classes of service in the City of Whittier not herein set forth shall continue without modification.

Dated at San Francisco, California, this *9th* day of November, 1917.

Max Heber

Edwin O. Edgerton

Frank R. Devlin