

ORIGINAL

Decision No. 4911

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Decision No.

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application)
of the SOUTHWESTERN GAS COMPANY) APPLICATION NO. 3163
for permission to change rates.)

Claude H. Webber for Applicant
W. C. Petchner for Town of Hemet.

BY THE COMMISSION

O P I N I O N

This is the application of the Southwestern Gas Company for an increase of its rates for gas in the cities of Hemet and San Jacinto, Riverside County, California, in which cities it operates an artificial gas production and distribution system.

In its application the company alleges that the present rates are not sufficient to allow interest on the money invested; that the increased costs will cause a serious deficit in the company's operations and

that the present rates are not equitable to all consumers. The company requests authority to increase its rates for artificial gas sufficient only to meet the increased operating expenses caused particularly by the increased cost of fuel. In the original application it asked that certain rates be approved. At the hearing, however, the company amended its application and asked that the Commission fix a rate which it should find to be just and reasonable.

A hearing in this matter was held before Examiner Encell at Hemet on November 13th, at which time evidence and testimony were introduced.

The rates charged by Southwestern Gas Company for gas of approximately 600 B.T.U. per cubic foot have, in the past, and now consist of a winter and summer rate. These rates have never been passed on by the Commission.

The winter rate is \$1.50 per 1,000 cubic feet where the monthly consumption is less than 3,000 cubic feet and \$1.25 per 1,000 cubic feet where the consumption exceeds that amount. The summer rate, charged from April 1st until October 31st, is \$1.50 per 1,000 cubic feet where the monthly consumption is less than 5,000 cubic feet. Where the consumption exceeds 5,000 cubic feet per month there is a discount of 5¢ per 1,000 cubic feet for each 5,000 cubic feet consumed. The minimum bill charged in both cases is 75¢ per meter per month.

Assistant Engineer W. J. Hammond of the Commission's Gas and Electric Department submitted a report and testified regarding the approximate capital invested

by the Southwestern Gas Company, the revenues and expenses for the last three years and the effect of the increased cost of oil upon the company's net revenue and operating expenses.

From Mr. Hammond's testimony it appears that the estimated investment in these properties is approximately \$40,000. This estimate appears sufficiently accurate for the determinations in this matter.

The revenues and expenses together with the returns realized for the three years last past are set forth as follows:

	<u>1914</u>	<u>1915</u>	<u>1916</u>
Operating Revenue	\$9,441.89	\$10,268.93	\$9,428.18
Operating Expense	<u>7,577.77</u>	<u>7,513.82</u>	<u>7,458.14</u>
Net for Interest and Depreciation	\$1,864.12	\$2,755.11	\$1,970.04
Net Rate for Interest and Depreciation	4.66%	6.9%	4.93%
Net Rate for Interest	1.85%	4.1%	2.12%

The statistics for the year 1916 show the following:

Barrels of oil used	2,336
Total gas manufactured	7,157,900 cu.ft.
Total gas sold	6,416,300 "
Average number of consumers	315
Gas sold per consumer	20,360 cu.ft.
Revenue per consumer (Incl. Misc. Revenues)	\$29.93
Revenue per 1,000 cu.-ft. sold (Incl. Misc. Revenue)	\$ 1.47
Gal. Oil per 1,000 cu.ft. sold	15.3 gals.

During the year 1916 the company paid \$1.05 per bbl. for oil delivered at Hemet. The cost of oil steadily

increased until August 1917, since which date the company has paid \$1.70 per bbl. for oil. Mr. Webber, manager of the company, testified that he was unable to obtain a contract for oil and was, therefore, required to pay prices subject to market fluctuations.

Applicant's business has not shown any increase during the past 3 years as will be noted by reference to the revenues for 1914, 1915 and 1916 and it is probable that without material increase in investment the company's gas business will not be much greater in 1918 than in 1915 or 1916.

Mr. Webber testified that some re-arrangements were being made at the company's plant by which he hoped to realize a slight saving in oil and also by the extension of certain mains between 30 and 40 new consumers would be added to the company's system. Such will not, however, offset the material increase in operating expenses resulting from the increased price of oil.

The increase in oil cost of 65¢ per bbl. over 1916 price, if applied to the amount purchased during that year, shows an increase in operating expenses for that item alone of \$1,518.40 or \$.236 per 1,000 cu.ft. of gas sold. Other expenses will tend to increase this cost further. This increase alone will require an average rate of \$1.71 per 1,000 cubic feet sold to return the same low net return received in 1916.

It is apparent from the above that if applicant is not granted relief it will, under the present oil prices, be barely able to meet its operating expenses in

the future and will, therefore, not be able to earn any return upon its investment.

During the present national crisis a company must not only economize in every way possible but must also expect in many instances to have to forego a considerable part of its profits. In the case of this company, however, its net earnings have been below the cost of money and we believe that, considering these previous losses, the applicant is entitled at least to an increase of rates which will as near as possible offset the increased cost of oil.

Applicant in this case asks only for an increase sufficient to offset the increase in the cost of oil and states that in the future, if oil prices decline, it will be willing to reduce its rates for gas.

An increase in gas rates in general is accompanied by a loss of some business owing to the greater economy on the part of consumers and to the changing to other fuels. Under the present conditions, however, practically all other forms of fuel which can be used in competition with gas have materially advanced in price also, so that any material decrease in sales accompanying such an increase will probably not be realized.

It appears from the testimony in this matter that a form of rate which would tend to encourage increased use of gas and also one that would encourage the prompt payment of bills at the company's office would result in a material saving to both company and the consumer and not require as high a rate as would be required otherwise.

The rates set forth in the order herein will result in an increased revenue sufficient to compensate for the increase in oil cost provided the sales do not decrease materially. In this schedule a discount of 25¢ for prompt payment is made on all bills to encourage payment and reduce cost of collection, which it appears will reduce operating expenses considerably.

O R D E R

Southwestern Gas Company having applied to increase its gas rates and a hearing having been held and the matter being submitted and now ready for decision, and the Railroad Commission finding as a fact that the existing rates under the 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 Southwestern 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 towns of Hemet and San Jacinto and contiguous territory.

SCHEDULE "A"

GENERAL GAS SERVICE

RATE:

First 400 cu.ft. or less per meter per mo. \$1.00

Next	1,600	cu.ft.	per	meter	per	no.	\$1.75	per	1,000	cu.ft.
"	3,000	"	"	"	"	"	1.50	"	"	"
"	5,000	"	"	"	"	"	1.30	"	"	"
All over	10,000	"	"	"	"	"	1.10	"	"	"

Discount for Prompt Payment: A discount of 25¢ will be made on each bill which is paid at the time bill is rendered or within 15 days thereafter.

The above rates herein ordered shall be applicable to all regular meter readings made on or after December 15, 1917 provided Southwestern Gas Company shall have filed with this Commission said rates on or before December 10, 1917.

Dated at San Francisco, California, this 30th day of November, 1917.

Mar. Sheldon

H. B. Rowland

Edwin O. Edgerton

Commissioners.