ORIGINAL

EB

Decision No. ________

Decision No. 5337

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of the SOUTHERN CALIFORNIA GAS COMPANY to Increase Rates.	:	APPLICATION NO. 1853

Jared How for Applicant.
Wm. Guthrie, City Attorney for the City of San Bernardino.
A. H. Winder, City Attorney for the City of Riverside.
M. O. Hert, City Attorney for the City of Colton.
R. E. Hodge, City Attorney for the City of Rialto.

EDGERTON, Commissioner.

O P I N I O N

In this application the Commission is asked to fix the rates for the service of gas to all consumers of Southern California Gas Company, - applicant alleging that the rates are now unreasonably low.

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The properties of the Southern California Gas Company are composed of two systems, entirely separate from each other, the one serving natural and mixed gas in Los Angeles County, the other serving artificial gas in Riverside and San Bernardino Counties. That part of the application which pertains to the Los Angeles District was combined with Case No. 845 - City of Los Angeles vs. Los Angeles Gas and Electric Corporation and Southern California Gas Company - the same having been decided in this Commission's Decisions No. 4559 and No. 4853, decided August 21, 1917 and November 19, 1917, respectively.

The Commission in this proceeding is asked by all parties concerned to fix the quality of gas to be served, as well as the rates charged for gas served by applicant in the incorporated cities of San Bernardino, Riverside, Colton and Rialto, Highland, Highgrove and contiguous territory.

Applicant's gas properties in San Bernardino and Riverside Counties consists of an artificial oil gas plant near Colton, transmission mains to San Bernardino, Riverside and outlying districts, and the necessary distribution systems, together with gas production plants in San

Bernardino and Riverside superseded by the Colton plant.

Southern California Gas Company serves in competition with Citrus Belt Gas Company in San Bernardino and part of Colton, the business in the former city being divided about two-thirds to applicant. The other cities and towns are served by applicant exclusively.

Citrus Belt Gas Company has also asked for an increase of rates. Its application No. 2787 as far as it applies to service in the cities of Redlands and Corona was passed upon by the Commission in Decision No. 4682, issued September 1st, 1917. The application in so far as it applies to service in San Bernardino and Colton is this day being decided.

At the time applicant purchased the San Bernardino and Riverside gas properties in 1911, the properties included gas generating plants located in each of the above mentioned cities. Soon after acquiring these properties, applicant decided to build and operate one large generating plant to be located near Colton, from which point transmission lines would connect the then separate systems. Construction of the Colton plant was completed early in 1912, and since that date the generating plants located in San Bernardino and Riverside have not been in active operation.

Considerable testimony was submitted to show that the construction of the Colton plant resulted in marked economies and has been and will continue to be in the future a direct saving to the consumer.

I do not believe that the company should be penalized for exercising apparent good judgment in constructing the plant at Colton, and in computing the rates herein I have allowed a sufficient sum to amortize that part of the non-operative generating plants which may no longer be considered used and useful in the gas business.

Rate Base:

The Commission's engineers submitted a report on the reproduction cost new of both the operative and non-operative properties in this district as of October 1, 1915. Applicant did not submit a separate valuation, accepting the Commission's engineers' report, but submitted evidence regarding readjustments in operative and non-operative property, and also called attention to certain other items which were omitted.

From a careful consideration of the valuation submitted and the testimony and arguments pertaining thereto, the following appears to be a fair capital basis upon which to compute a return:-

TABLE NO. 1

SUMMARY OF RATE BASE, DEPRECIATION ANNUITY AND AMORTIZATION ANNUITY

October 31, 1917.

	Rate Base	Depreciation Annuity 6% S.F.
Operative Property:		
Colton Plant	$116,163.00	$ 1,700.36
San Bernardino Division	345,031.00	8,671.28
Riverside Division	254,216.41	5,265.84
Total Operative	$715,410.41	$15,637.48

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CORRECTION

THIS DOCUMENT

HAS BEEN REPHOTOGRAPHED

TO ASSURE LEGIBILITY

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	Rate Base	Depreciation Annuity 6% S.F.
(Brought Forward)	$715,410.41	$15,637.48
Working Cash Capital and Material & Supplies	24,000.00	
Total Rate Base	$739,410.41	$15,637.48

	Reproduction Cost New	Amount Amortized	Amortization Annuity 6% S.F.
Non-Operative Property:			
San Bernardino Div.	$41,406.98	$14,412.61	$1,960.11
Riverside Div.	18,061.88	10,747.33	1,461.64
Total	$59,468.86	$25,159.94	$3,421.75

The depreciation allowance made in this case has been determined upon the 6% sinking fund basis. The amortization allowance is based upon a 10-year period using the 6% sinking fund, at the same time allowing 6% on the unamortized balance.

Operating Expenses:

Operating expenses have in general been estimated on a basis of the past operations of this system, due consideration being given to increase in labor, oil and taxes. This does not include, however, a continuance of the high maintenance expenses such as those recently incurred due to the welding of applicant's transmission lines, as this was considered as an extraordinary repair. Attention should be called to the material advance in the price of fuel oil as this item alone will increase the company's operating expenses over those of 1917 by approximately $40,000.00. During 1916 and 1917 applicant purchased oil at 70¢ per barrel delivered at Colton. This contract expired December 31, 1917. Since the submission of this case, applicant has entered into a contract with the General Petroleum Company for the purchase of oil for the year 1918 at $1.35 per barrel at the fields, making a total, including freight and taxes thereon of $1.49 per barrel at Colton. It is estimated that the fuel oil consumption at the Colton plant for the year 1918 will approximate 50,000 barrels. Other material increases in operating costs have occurred, among which are labor, material and taxes, all of which have been considered in computing the rates established in the order.

The Southern California Gas Company has served, according to records, a gas having an average heat content of 603 B.T.U. per cubic foot. An ordinance of the City of Riverside requires an average monthly heat content of 600 B.T.U. per cubic foot with an allowable minimum of 550 B.T.U. The ordinance of the City of San Bernardino requires applicant to serve gas having a heat content of not less than 600 B.T.U. per cubic foot. It is apparent that both cities have received the same quality of gas and that the San Bernardino ordinance determined the quality of gas served in the past.

Applicant urged through its gas experts that more efficient service could be had by lowering the heat content requirements to less than 600 B.T.U. per cubic foot; that such a reduction would not result in a proportionate increase in sales, although some increase might result and also that with the lower heat unit gas a more uniform quality could be supplied, resulting in better service and more efficient combustion.

It was understood at the hearings that the Commission would determine and fix the quality of gas to be served.

I am not fully convinced by applicant that the lower heat unit gas will not cause a proportionate increase in sales. In this case I am impressed, however, with the applicant's request and believe that if applicant can show economies in the future by the delivery of a reduced heating value gas, it should be given the opportunity of proving its ability. I have, therefore, in this case concluded to fix the standard quality of all gas served by applicant in this district at 560 B.T.U. per cubic foot average per month with a minimum heat content of 530 B.T.U. The estimates of sales, oil consumption, etc., have been varied as a result of the reduction in the quality of the gas to be served over that which has been served in the past.

This should insure the consumers at least as good service as previously enjoyed, and at the same time give them the benefit of economies which applicant professes can be realized thereby. Pending proof to the contrary, I will assume that the sales will increase approximately in proportion to the reduction in heat content.

Considerable evidence was submitted regarding future growth, as well as regarding the effect of the reductions in the heat content of the gas served. This has been carefully considered in estimating the sales for the year 1918. I have allowed additions to capital for new business and an increase in working capital, bringing the rate base for 1918 up to $750,000.

The following table shows the estimates upon which the average rate is based:-

TABLE NO. 2

ESTIMATED OPERATING EXPENSES

AND TOTAL RETURN, 1918

Based upon 560 B.T.U. Gas

Total Production	225,000,000 Cu.ft.
Total Sales	195,800,000 Cu.ft.
Rate Base	$750,000.00
Operating Expenses, other than Oil	65,873.00
Oil	74,500.00
Fixed Charges:	
Interest at 8%	$60,000.00
Depreciation Annuity	15,740.00
Amortization Annuity	3,421.75
Total	$79,161.75

(Brought Forward)	
Operating Expenses	$140,373.00
Fixed Charges	$ 79,161.75
Uncollectible Bills	$ 1,898.70
Taxes at 5.6%	13,079.55
Total Return	$234,513.00
Average Rate per M Cu.ft. Sold	1.1977

Having determined the total sum which must be obtained yearly from applicant's consumers as gross revenue, it now becomes necessary to spread this burden in rates over the various classes of consumers.

Inasmuch as the average rate is somewhat higher than that received during the previous year by applicant, the simple method would be to spread the increase equally over each 1,000 cubic feet of gas sold. However, I believe the present form of rates are not equitable to the consumers in the various districts, and further that the more just basis would be to fix an entirely new schedule, taking into account the cost of service in each district, at the same time considering the benefits that accrue to each district because of its connections with the other districts.

The City of Riverside requested that the same schedule of rates be made applicable throughout that City. A similar request was also made by the City of San Bernardino. The outlying districts are at present being served at a greater cost than in the more congested districts, and should, in the future, pay a higher rate than chargeable to the larger cities.

The existing rates are:

SCHEDULE A-8

GENERAL SERVICE

Riverside, Arlington District $1.20 less 10¢ per 1,000 cu.ft.

Minimum charge $ .50

Discounts effective if bill is paid by the 10th of the month.

SCHEDULE A-9

GENERAL SERVICE

San Bernardino- - - - - - -	$1.00	net	per	1000	cu.ft.	
Loma Linda- - - - - - - - -	1.25	"	"	"	"	
Colton- - - - - - - - - - -	1.25	less	10¢	per	1000	cu.ft.
Highland- - - - - - - - - -	1.50	"	"	"	"	"
Rialto- - - - - - - - - - -	1.50	"	"	"	"	"

No Minimum charge.

Discounts effective if bill is paid by the 10th of the month.

While the rates established in the following order should net applicant an eight per cent return upon the rate base, the exact rate of return is largely dependent, however, upon the effect of the reduction in the quality of gas and the effect of the present abnormal economic conditions upon the gas sales for the ensuing year. If applicant's engineers' contention that the sales will not materially increase with reduced heat content is correct, the rate of return will be decreased

May 5, 1918, the following schedule of rates for gas, having a monthly average heat content of 560 B.T.U. per cubic foot, and a minimum heat content of 530 B.T.U. per cubic foot.

SCHEDULE "A"

General Service

Cities of San Bernardino and Riverside

Rate:

First	3,000	cu.ft.	per	meter	per	mo...$1.20	per	M	cu.ft.
Next	5,000	"	"	"	"	"... 1.10	"	"	"
"	7,000	"	"	"	"	"... 1.00	"	"	"
All over	15,000	"	"	"	"	"... .80	"	"	"

Minimum Monthly Charge $.60

SCHEDULE "B"

General Service

Territory Outside the Corporate Limits of

San Bernardino and Riverside
including
Colton, Rialto and other Incorporated Towns
and Unincorporated Territory Served

Rate:

First 500 cu.ft. or less per meter per mo...$ .75

Next	2,500	cu.ft.	per	meter	per	mo...$1.30	per	M	cu.ft.
"	5,000	"	"	"	"	"... 1.15	"	"	"

Rate - (Cont'd)

Next	7,000 cu.ft.	per meter	per mo...	$1.00	per M cu.ft.
All over	15,000 "	"	" ...	.80	" " "

Minimum Monthly Charge $.75

The foregoing opinion and order is 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 23d day of April, 1918.

H. D. Loveland
Max Thelen
Edwin O. Edgerton
Frank R. Devlin
Commissioners.