

Decision No. _____

ORIGINAL

Decision No. 5443

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

In the Matter of the Application)
of Sacramento Gas Company for an)
order authorizing increase in rates) Application No. 3269
in the City of Sacramento.)

Devlin & Devlin, for Applicant /
Archibald Yell and B.D. Marx Greene,
for the City of Sacramento.
Chas. P. Cutten, for Pacific Gas &
Electric Company.

EDGERTON and DEVLIN, Commissioners:

O P I N I O N

This proceeding involves the fixing of just and reasonable gas rates in that portion of the City of Sacramento served by the Sacramento Gas Company.

On October 25th, 1917, the Sacramento Gas Company filed an application asking an increase in the rates charged by it for gas furnished to consumers in the City of Sacramento, alleging, among other things, the present insufficiency of its revenue to provide it with a reasonable return upon its invested capital on account of the increases in its operating costs.

Hearings were held in Sacramento on December 19, 1917, and in connection with Application No. 3248 in San Francisco on February 11th and 21st, 1918.

The Sacramento Gas Company, hereinafter referred to as the "Applicant", is engaged in serving a mixture of

natural and artificial gas in portions of the City of Sacramento, and during the year 1917 sold 141,892,000 cubic feet of gas to approximately 6, 776 consumers. The existing rates of the Company are shown in the schedules on file with this Commission.

The Applicant has, in the past, purchased oil for use in its gas manufacturing plant at a price of 80¢ per barrel, but is now required to pay approximately \$1.85 per barrel. Such an increase is reflected in the Company's cost of operation and the Company has further been compelled to meet increased costs of material used in the construction and operation of its properties, and higher wages are being paid to its employees. Under such conditions, we are of the opinion that a part at least of the added burden of the cost of operation of the Company should be borne by its consumers in the form of increased rates.

In our opinion in Application No. 3248, decided this date, we have set forth the war emergency affecting public utilities and the principles which we believe govern the actions of regulatory bodies under present conditions, and in the present instance we have likewise fixed a normal rate and a surcharge to meet the emergency conditions. We recommend, as in application No. 3248, that the bills rendered by applicant to consumers in accordance with the rates hereinafter fixed, show the surcharge in the following language:

"Authorized added charge to meet war conditions."

The Company has submitted in evidence a valuation of its gas properties in the City of Sacramento, prepared by Mr. A. R. Kelley, which purports to show the historical cost of the properties as of April 1st, 1915. Applicant has further submitted in evidence the additions and betterments to its plant and properties as shown on its books from April 1, 1915 to and including December 31, 1917. The Commission's engineers have carefully examined the evidence submitted in connection with the valuation of these properties, and we feel satisfied that for the purposes of this proceeding alone, findings of value can be made as a basis for comparing the return to applicant under existing rates and under the rates hereinafter fixed.

We find as a fact that the value of the properties used and useful in the service of gas by applicant in the City of Sacramento, which represents an equitable base for the year 1918, and which further represents a reasonable valuation of the properties for comparing earnings under existing rates, with earnings under the rates hereinafter fixed, is the sum of \$810,000.00. This figure includes Applicant's lands, production capital, distribution capital and general capital, materials and supplies and working cash capital. It should be understood that in using this rate base, we do not pass finally upon the fair value of applicant's properties.

It will not be necessary for the purpose of this proceeding to specify with exactness the reasonable allowance for depreciation annuity upon the property of applicant. We shall make no findings as to the proper depreciation allowance upon applicant's property herein, but for the purpose of showing the comparative returns under existing rates and under rates hereinafter fixed, we shall consider the net income of applicant from its operations inclusive of depreciation. We desire to point out, however, at this time that the annual depreciation allowance claimed by applicant in this proceeding is in excess of a proper and reasonable annual depreciation allowance when compared with the depreciation allowances heretofore found by this Commission for similar properties.

We have reviewed the evidence submitted and have estimated therefrom the growth of applicant's business in the year 1918 as compared with the year 1917, and have given

consideration to the various items affecting the cost of operation of its properties and the other factors which tended to increase the cost of operation over and above the ordinary increase due to the growth of its business, and will show the conditions existing in applicant's business under existing rate and under the rates hereinafter fixed and the effect thereof upon applicant's net income.

Applicant's estimated revenue under existing rates in the City of Sacramento would be \$148,115.00 and under the rates hereinafter fixed \$187,437.00. Deducting operating expenses based upon the present price of oil of \$1.85 per barrel, and all other maintenance and operating costs, including taxes, the net income available for depreciation and return under existing rates would be \$50,537.00 and under the rates hereinafter fixed the corresponding net income would be \$87,084.00.

We find that the revenue that applicant will derive from existing rates will not provide it with an adequate return after the deduction of all proper operating expenses, and to this extent and in so far as they differ from the rates hereinafter fixed, the existing rates are not just, fair and reasonable rates, and we are further of the opinion that the rates of applicant in the City of Sacramento should be so modified that they will provide the Company with greater net revenue.

Applicant asks that this Commission fix a rate for it as high as that which may be permitted its competitor in the same field. It may be well to point out at this time that applicant is in competition in the City of Sacramento in the service of gas with the Pacific Gas and Electric Company.

the consumers being divided approximately one-third to applicant and two-thirds to Pacific Gas & Electric Co.

The Commission has this day, in its Decision No. 5439 Application No. 3248, fixed the rates to be charged for gas by the Pacific Gas & Electric Company in the City of Sacramento and suburbs. The rate therein established for the Pacific Gas & Electric Company, if applied to the business of applicant in the City of Sacramento, would provide applicant with a rate of return in excess of the rate of return allowed to the Pacific Gas & Electric Company in Decision No. 5439 Application No. 3248. We are satisfied that the greater rate of return thus allowed applicant is due it by reason of the proportionally smaller operating costs of applicant, and by reason of the fact that applicant's service is not entirely of manufactured gas, as is its competitor's, although of approximately the same quality.

We find as a fact that the rate established by this Commission in Decision No. 5439, Application No. 3248, for the Pacific Gas & Electric Company in the City of Sacramento and suburbs and set forth herein as "Rate Schedule "C" following, is a fair, just and reasonable rate for gas service in the territory served by applicant in the City of Sacramento.

RATE SCHEDULE "C"

On the basis of monthly consumption per meter.

Base Rate

.75	for the first 600 cubic feet or less
\$1.20	per 1000 cu. ft. for the next 2,400 cu. ft.
1.00	" " " " " " " 7,000 " "
.80	" " " " " " " 10,000 " "
.70	" " " " " " all over 20,000 cu.ft.

Surcharge:

In addition to the above, a surcharge of 10¢ per 1000 cu.ft. for all gas consumed.

This rate applies to the following localities:

The City of Sacramento and suburbs.

Prepayment Meters:

Gas sold through prepayment meters shall be paid for in accordance with this rate. When the amount collected by a prepayment meter is different from the amount chargeable in accordance with this rate, the difference shall be adjusted as between the consumer and the company.

The rate hereinbefore set forth as Rate Schedule "C", according to estimates prepared by the Commission's Gas and Electric Department, will increase the gross revenue of applicant by the sum of \$39,322.00 and the net revenue by the sum of \$36,547.00 over and above that which applicant would obtain under existing rates. These increases will provide applicant with a net revenue for depreciation and return that we regard as reasonable under present conditions.

We submit the following form of order:

O R D E R

Public hearings having been held in the above-entitled proceeding, the matter having been submitted and being now ready for decision, the Railroad Commission hereby finds as a fact that the rates charged by the Sacramento Gas Company for gas sold in the City of Sacramento are unjust and unreasonable in so far as they differ from the rates herein established, and that the rates herein established are just and reasonable rates.

Basing its order upon the foregoing findings of fact and on the other findings of fact contained in the Opinion which precedes this order,

IT IS HEREBY ORDERED that the Sacramento Gas Company be, and is hereby authorized to charge and collect for gas in the City of Sacramento the rate herein set forth as Rate Schedule "C"

for all meter readings taken on and after the 10th
day of ~~May~~^{June} 1918, provided Sacramento Gas Company shall, within
ten days of the date of this order file with the Railroad Com-
mission the rates set forth herein as Rate Schedule "C".

AND FURTHER PROVIDED, Sacramento Gas Company shall
show separately on the bills rendered its consumers the amounts
due it under the base rate and under the surcharge respective-
ly.

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 28th
day of May, 1918.

Max Thelen

W. H. Ireland

Geo Gordon

Edwin O. Edgerton

Frank Devlin

Commissioners.