

Decision No. 5863

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

In the Matter of the Application)
of HANFORD GAS AND POWER COMPANY)
for an Order authorizing an In-)
crease of Gas Rates.)

Application
No. 4109. ←

John G. Covert, for Applicant.

BY THE COMMISSION.

ORIGINAL

OPINION

This is the application of the Hanford Gas and Power Company for an increase in its rates charged for gas. Applicant operates an artificial gas plant and distribution system located in the City of Hanford, Kings County, California.

Applicant alleges in effect that the income derived from its gas business does not afford any interest on the investment, and that the income has been insufficient for the last several months to pay the actual operating expenses of applicant. Applicant further alleges that its present financial condition is due mainly to the material increases in the prices of oil and labor, and that providing relief is not given through the medium of increased rates, it will be impossible for applicant to meet its obligations and maintain its solvency.

A public hearing was held before Examiner Encell at Hanford on October 4th, 1918, at which time evidence was introduced relative to the rates and operations of the Hanford Gas and Power Company and the application was submitted.

The existing rates charged by applicant are as follows:-

		<u>Gross</u>	<u>Net</u>
First	600 cu.-ft. or less per month		\$1.00
First	1 000 cu.-ft. per month	\$1.70	1.60
Next	4 000 cu.-ft. per month	1.60	1.50
Next	5 000 cu.-ft. per month	1.45	1.35
Next	10 000 cu.-ft. per month	1.35	1.25
Next	20 000 cu.-ft. per month	1.10	1.00
All over	40 000 cu.-ft. per month	.95	.85

The above rates were fixed by this Commission in its Decision No. 3999, decided January 11th, 1917. In this decision the reproduction cost of applicant's property as of June 30th, 1916, based on the valuation by the Gas and Electric Department of this Commission, was found to be \$101,393.61. Additions and betterments from June 30th, 1916 to June 30th, 1918, total \$14,657.64, making a total reproduction cost as of June 30th, 1918, of \$116,051.25. On the basis of the above valuation applicant earned for interest and depreciation during 1917 approximately 5.30 per cent.

The following table shows the operating statistics for the year 1917, together with estimates for the year 1919:

	<u>1917</u>	<u>1919</u>
Gas Sales, M. cu. ft.	16 440	19 630
Consumers	803	900
Sales per Consumer	20 500	21 800
Cost of Oil, (Bbl.)	\$.796	\$ 2.00
Total Oil used, (Bbls.)	7 072	6 550
Total Cost of Oil	\$5 629.31	\$13 100.00
Gallons Oil per M. cu. ft. Gas Sold	18.1	14
Average Revenue per M. cu. ft. Gas Sold	\$ 1.56	

It will be noted from the preceding tabulation that the oil consumption in gallons per

thousand cubic feet of gas sold during the year 1917, was much in excess of what it should be in an efficiently operated plant of the size of applicant's. In the 1919 estimates an oil duty of 14 gallons has been used, and it is believed that applicant, with careful operation, should be able to reduce its oil consumption to this amount.

At the time the present rates were fixed by this Commission, applicant was operating under a contract by which it purchased fuel oil at \$.796 per barrel. This contract expired on December 22nd, 1917. By the present contract, which expires on December 22nd, 1918, applicant purchases oil at \$1.66 per barrel. After the expiration of the present contract, applicant will be unable to renew it and will have to secure its oil on the open market at a price of not less than \$2.00 per barrel. This increase in the price of oil since the present rates were fixed, will effect an increase in operating expenses, based upon our estimate of the 1919 oil duty and gas sales of \$8,670.00, or \$.441 per thousand cubic feet of gas sold. In addition to the increased cost of oil, applicant will in the future be forced to increase its payroll approximately 15 per cent, which will effect an increase approximating .66 cents per thousand feet of gas

sold. The above increases will effect an increase in operating expenses, including the taxes thereon, amounting to \$10,700.00, and, providing the present rates were maintained in effect, would cause an actual deficit in net revenue of over \$3,000.00.

From the above it is apparent that this utility must have relief in the way of increased rates in order that it may earn operating expenses and interest and be able to maintain good service. We do not believe that applicant's rates should be increased to a point where it will realize a full 8 per cent return on the investment at this time, now do we believe with the present cost of oil and labor applicant could charge rates sufficiently high to earn such a return. It is evident from the application that applicant realizes these points and desires an increase in rates at this time sufficient only to amply safeguard its securities. Therefore, after careful consideration of the points involved in this application, we are fixing such rates which, providing the Company realizes such efficiency in its operations as we believe it should realize, will net applicant a return approximating 8 per cent for interest and depreciation, and also providing applicant's gas sales do not decrease materially because of the increase in rates.

We recommend the following form of order:

ORDER

Hanford Gas and Power Company having applied to the Railroad Commission of the State of California for an order authorizing an increase in its gas rates, hearing having been held and the matter submitted and now ready for decision, the Railroad Commission finds as a fact that the existing rates under present conditions of cost and operation are unjust and unreasonable in so far as they differ from the rates and charges herein established, and that the rates set forth in this order are just and reasonable.

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

IT IS HEREBY ORDERED that Hanford Gas and Power Company be and is hereby authorized to charge and collect the following rates for gas for all regular meter readings taken on and after October 25th, 1918, to-wit:

		<u>Gross</u>	<u>Net</u>
First	500 cu.-ft. or less per meter per month	\$1.10	\$1.00
		<u>Per M. Cu.-Ft.</u>	
Next	2 500 cu.-ft. per meter per month	\$1.90	\$1.80
Next	5 000 cu.-ft. per meter per month	1.80	1.70
Next	7 000 cu.-ft. per meter per month		1.50
All over	15 000 cu.-ft. per meter per month		1.20

The net amount is effective providing the bill is paid on or before the tenth of the month in which the bill was rendered.

Dated at San Francisco, California, this 22.
day of October, 1918.

W. H. Loveland
Wm. Gordon
Frank D. ...
COMMISSIONERS