

ORIGINAL

Decision No. 6323

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application of )  
COAST COUNTIES GAS AND ELECTRIC COM- )  
PANY, a corporation, for authority ) Application No. 4268.  
to increase Gas Rates. )

S. Waldo Coleman for applicant.  
W. R. Springer, City Attorney, and  
George W. Smith for City of Santa Cruz.  
A. W. Sans and R. H. Hudson for City of Watsonville.

DEVLIN, Commissioner.

O P I N I O N.

Coast Counties Gas and Electric Company in its applica-  
tion alleges that increased costs of fuel oil and wages have oc-  
curred since its gas rates were last established by Decision No. 5257,  
dated April 1, 1918 (Vol. 15, Opinions and Orders of the Railroad  
Commission of the State of California, p. 497), and asks that further  
relief be granted to it in the form of a surcharge on its gas rates.

Public hearings were held in Santa Cruz and in Watsonville,  
at which latter time the matter was submitted and is now ready for  
decision.

Coast Counties Gas and Electric Company, hereinafter  
at times referred to as applicant, is a gas and electric utility  
and in connection with its gas business, operates four manufacturing  
plants and distributing systems in Santa Cruz, Watsonville, Hollis-  
ter and Gilroy, supplying in total 3633 consumers.

Protestants testified at the hearing held at Watsonville  
that the number of oil stoves used as a substitute for gas has in-

creased since the raise in rates of April 1, 1918; that any further raise in gas rates would result in a further increase in the use of oil stoves; that gas now supplied is of a poorer quality than that prior to the first of April, 1918, and that there is no uniformity to the quality of gas supplied; that the pressure is very poor, especially in the morning and evening, rendering the preparation of meals practically impossible.

An analysis of applicant's operating costs and an investigation of its gas service were made by the Commission's Gas and Electric Division.

The amount of oil used in the manufacture of gas at the four plants of applicant is as follows:

Santa Cruz	13.1	gallons	per	1000	cu.ft.	of	gas	sold
Watsonville	12.2	"	"	"	"	"	"	"
Hollister	15.0	"	"	"	"	"	"	"
Gilroy	13.8	"	"	"	"	"	"	"

These figures are comparable with those of other small gas plants serving approximately the same number of consumers and they appear to show reasonably good operation. The boilers of the various plants are fired with lampblack, which is produced as a by-product, and economy is shown in their operation. Investigation shows that applicant's expense for labor has, in general, been reduced to a minimum.

The complaints that have arisen, particularly in Watsonville, are due largely to lack of pressure during the morning and evening hours. The Commission has already required applicant to set pressure gauges in Watsonville, which will enable the Commission to determine the actual pressure conditions and to order the necessary improvements.

Tests made of the gas supplied from the Santa Cruz plant showed a heating value of 550 B.t.u. per cubic foot, and from 500 to 520 B.t.u. for the other three plants.

The gas manufactured at those plants should have a minimum average quality of 550 B.t.u. per cubic foot, this being the quality which applicant reports in its rate schedules. Applicant now maintains a calorimeter at the Santa Cruz plant for the purpose of measuring the quality of the gas there. This calorimeter should be moved from time to time and used to measure the quality of gas at each of the other plants. In this manner, a record will be obtained of the quality of all gas furnished, and more uniformity will result.

Mr. A. W. Sans, City Attorney of Watsonville, suggested at the hearing held at Santa Cruz that a valuation should be made of the gas properties of applicant in connection with this proceeding. Applicant shows the value of its gas properties as of January 1, 1919, in its Exhibit "B", as follows:

Santa Cruz	\$199,297.88
Watsonville	117,950.83
Hollister	81,541.99
Gilroy	33,482.08
Total.	<u>\$432,272.78</u>

It does not appear necessary at this time to make a detailed valuation of the gas properties herein. From a survey of these properties and a comparison of applicant's figures above with valuations of other similar properties where careful valuations have been made by the Commission, it appears that applicant's figures are reasonable and will be used in this proceeding for rate-fixing purposes. With the high prices existing at present, a reproduction cost new of applicant's properties would unquestionably exceed the figures submitted by applicant. It must be borne in mind, however, that in adopting applicant's figures of capital in the present instance, this Commission does not thereby

make a formal finding of value.

The duplication of gas mains in the City of Watsonville was challenged as being an item of capital, the return on which should not be borne by the consumers. This duplication involves 5.3 miles of mains, purchased by applicant from a former competing gas company. I find that under the present operating conditions the two sets of pipe lines are necessary to supply the present volume of gas at suitable pressure to consumers in the territory affected. If applicant had not purchased these gas mains, it would, in most of this section, have been forced to replace its own pipes with those of larger size to properly maintain pressure and delivery of gas. This would have required a greater cost than that now resulting from the two systems of pipes.

Applicant's actual revenue, expense and return for each district for the year ending December 31, 1918 are as follows:

	<u>Santa Cruz</u>	<u>Watsonville</u>	<u>Hollister</u>	<u>Gilroy</u>	<u>Total</u>
Revenue	\$55,794.36	\$33,695.20	\$15,523.35	\$14,134.65	\$119,147.56
Expense*	<u>47,681.69</u>	<u>26,932.98</u>	<u>16,837.72</u>	<u>13,444.54</u>	<u>104,896.93</u>
Net Earnings	8,112.67	6,762.22	1,314.37x	690.11	14,250.63
Per cent on Capital for Interest and Depreciation	4.07%	5.73%		2.06%	3.29%

NOTE: \* Excluding Depreciation  
x Deficit.

If the present rates, as established in Decision 5257, supra, remain in effect during the entire present

year, the returns for the year 1919 will be as follows, assuming the gas sales for 1919 to be the same as during 1918:-

	<u>Santa Cruz</u>	<u>Watsonville</u>	<u>Hollister</u>	<u>Gilroy</u>	<u>Total</u>
Revenue	\$64,592.94	\$35,770.85	\$16,338.25	\$14,889.03	\$131,591.08
Expense*	<u>51,350.69</u>	<u>27,442.49</u>	<u>15,642.09</u>	<u>13,401.44</u>	<u>107,836.71</u>
Net Earnings	13,242.25	8,328.37	696.16	1,487.59	23,754.37
Per cent on Capital for Interest and Depreciation	6.63%	7.07%	0.85%	4.45%	5.49%

Note \* Excluding Depreciation.

and if a reasonable depreciation annuity of 2 per cent be deducted under operating expenses, the applicant's return on the entire property will average 3.5 per cent for the year 1919.

The cost of fuel oil to applicant at its several plants on April 1, 1918, and January 1, 1919 is shown in the following table:

<u>Plant</u>	<u>Price of Fuel Oil per Barrel</u>		<u>Increase per bbl.</u>
	<u>As of April 1, 1918</u>	<u>As of January 1, 1919</u>	
Santa Cruz	\$1.646	\$1.847	\$ .201
Watsonville	1.747	1.948	.201
Hollister	1.856	2.065	.209
Gilroy	1.739	1.948	.209

The increases in operating expenses for the year 1919 per thousand cubic feet of gas sold, due to higher costs of oil, assuming the same gross sales as in the year 1918, are, for each district:

Santa Cruz	6.27¢	per	1000	cu.ft.	sold
Watsonville	5.83¢	"	"	"	"
Hollister	7.48¢	"	"	"	"
Gilroy	6.87¢	"	"	"	"

Applicant urges that it be allowed rates that would produce a full 8 per cent return upon its capital after the deduction of depreciation. Rates to accomplish this, particularly at the Hollister plant, would be so high as to make the use of gas prohibitive, and in all probability the resulting loss of business would far exceed the gain in revenue. Applicant cannot fairly expect to receive a full 8 per cent return in these times with high operating expenses due to present abnormal conditions, when, under former more favorable conditions this business had not demonstrated any such earning ability. The burdens should be borne in part by applicant as well as by its rate payers, and we cannot now establish rates that will increase the return to 8 per cent.

The increase herein authorized will result in average rates for all gas sold of \$1.70 in Santa Cruz, \$1.73 in Watsonville, \$1.82 in Hollister and \$1.78 in Gilroy. In case no loss of business results from the increase herein granted the net return to applicant in Watsonville and Santa Cruz districts will be approximately 7.5 per cent, 6 per cent in the Gilroy district, while in Hollister the net will only slightly exceed operating expenses and depreciation.

Applicant has asked for increased gas rates in the form of a surcharge to existing rates. In my opinion, however, the present costs are of a character sufficiently permanent to warrant a change in the rate struc-

ture itself. It is understood, however, that the Commission will keep a record of the company's operations and modify the rate if conditions warrant. I am of the opinion that the rates set forth in the Order hereinafter are sufficient to absorb the increases in the costs of oil and will, under all the circumstances, produce a reasonable return.

I submit the following form of Order;

O R D E R

COAST COUNTIES GAS AND ELECTRIC COMPANY having applied to the Railroad Commission for an increase in its rates and charges for gas in Santa Cruz, Watsonville, Hollister and Gilroy, public hearings having been held, the matter submitted and being now ready for decision, the Railroad Commission of the State of California hereby finds as a fact that the rates for gas now charged by Coast Counties Gas and Electric Company are not just and reasonable rates, and that the rates and charges for gas herein established are, under present conditions, 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 Coast Counties Gas and Electric Company charge and collect the following rates for gas in the respective territories and for the classes of service set forth in the following schedules, which rates shall apply on all regular meter readings taken on and after the 10th day of May, 1919:

SCHEDULE NO. 1

General Gas Service - Santa Cruz

						<u>Gross</u>	<u>Net</u>			
First 500 cu.ft. or less per meter per mo.						\$1.10	\$1.00			
Next 2,000 cu.ft. per meter per month						1.75	1.65	per M	cu.ft.	
" 2,500 "	"	"	"	"	"	1.60	1.50	"	"	"
" 5,000 "	"	"	"	"	"		1.30	"	"	"
" 5,000 "	"	"	"	"	"		1.10	"	"	"
All over 15,000 "	"	"	"	"	"		1.00	"	"	"

PROMPT PAYMENT DISCOUNT:

All bills are rendered at the gross rate shown above. A discount reducing the bill to the net rate is made for prompt payment in case bills are paid within 10 days of presentation.

SCHEDULE NO. 2

General Gas Service - Watsonville

						<u>Gross</u>	<u>Net</u>			
First 500 cu.ft. or less per meter per mo.						\$1.10	\$1.00			
Next 2,000 cu.ft. per meter per month						1.80	1.70	per M	cu.ft.	
" 2,500 "	"	"	"	"	"	1.60	1.50	"	"	"
" 5,000 "	"	"	"	"	"		1.30	"	"	"
" 5,000 "	"	"	"	"	"		1.10	"	"	"
All over 15,000 "	"	"	"	"	"		1.00	"	"	"

PROMPT PAYMENT DISCOUNT:

All bills are rendered at the gross rate shown above. A discount reducing the bill to the net rate is made for prompt payment in case bills are paid within 10 days of presentation.



SCHEDULE NO. 3

General Gas Service - Hollister and Gilroy

						<u>Gross</u>	<u>Net</u>			
First 500	cu.ft. or less	per meter	per mo.			\$1.10	\$1.00			
Next	2,000	cu.ft.	per meter	per month		1.85	1.75	per	M	cu.ft.
"	2,500	"	"	"	"	1.60	1.50	"	"	"
"	5,000	"	"	"	"		1.35	"	"	"
"	5,000	"	"	"	"		1.20	"	"	"
All over	15,000	"	"	"	"		1.10	"	"	"

PROMPT PAYMENT DISCOUNT:

All bills are rendered at the gross rate shown above. A discount reducing the bill to the net rate is made for prompt payment in case bills are paid within 10 days of presentation.

SCHEDULE NO. 4

Gas Service with Prepay Meters

Santa Cruz, Watsonville, Hollister and Gilroy

Rate: \$2.00 per thousand cubic feet per meter per month.

Minimum Monthly Charge: \$1.00 per meter.

SCHEDULE NO. 5

Gas Service for Hotels, Restaurants and Bakeries

Santa Cruz and Watsonville

	<u>Gross</u>	<u>Net</u>
Rate per thousand cubic feet	\$1.00	\$.95
Minimum weekly charge per meter	7.50	7.00
Annual guarantee		150.00

SCHEDULE NO. 5 (Cont'd)

PROMPT PAYMENT DISCOUNT:

All bills are rendered at the gross rate shown above. A discount reducing the bill to the net rate is made for prompt payment in case bills are paid within 10 days of presentation.

SCHEDULE NO. 6

Gas Service for Hotels, Restaurants and Bakeries  
Santa Cruz, Watsonville, Hollister and Gilroy

	<u>Gross</u>	<u>Net</u>
Rate per thousand cubic feet	\$1.20	\$1.10
Minimum weekly charge per meter	4.00	3.50
Annual guarantee		50.00

PROMPT PAYMENT DISCOUNT:

All bills are rendered at the gross rate shown above. A discount reducing the bill to the net rate is made for prompt payment in case bills are paid within 10 days of presentation.

PROVIDED Coast Counties Gas and Electric Company shall, within 10 days of the date of this order, file with the Railroad Commission the schedules of gas rates herein established.

IT IS HEREBY FURTHER ORDERED that the gas supplied by Coast Counties Gas and Electric Company to its consumers from each of its plants shall have an average quality of not

less than 550 British Thermal Units per cubic foot, under standard conditions of 30 inches of mercury pressure and 60 degrees Fahrenheit temperature.

IT IS HEREBY FURTHER ORDERED that Coast Counties Gas and Electric Company file with the Railroad Commission on or before the 10th day of each month a statement of the results of calorimeter tests of the gas supplied to its consumers during the preceding month.

The foregoing Opinion and Order are 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

12th day of May, 1919.

Edwin O. Egerton  
H. J. Forland  
Frank Werber  
H. B. Boudique

Commissioners.