

Decision No. 6480

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application)
of AUGUST OIL COMPANY, a corpora-)
tion, for an order revising and) Application No. 4406.
increasing its rates.)

Everts and Ewing, by D. S. Ewing,
for Applicant.

BY THE COMMISSION:

OPINION

This is an application by August Oil Company, a public utility corporation engaged in the business of supplying water for commercial use in the Midway and Sunset Oil Fields, Kern County, for an order revising and increasing its rates for water served to its consumers.

Public hearings were held in Bakersfield on May 6, 1919, and in San Francisco on May 15, 1919, before Examiner Bancroft.

From the evidence it appears that applicant was incorporated in 1910 for the primary purpose of developing and selling crude oil; that it purchased the lease of the G.M.B. Oil Company of 40 acres of land owned by the Fort Wayne Oil Company located in the southeast

quarter of the southeast quarter of Section 31, Township 32 S. R. 24 E., M.D.B. & M., for which applicant paid the G.M.B. Oil Company 300,000 shares of its capital stock, the market value of which, at that time, was ten cents per share. There were then on the property two wells, one known as Well No. 1, about 1,220 feet deep, the other as Well No. 2, about 1480 feet deep, also certain machinery, tank and pipe lines necessary for oil operations.

Applicant then proceeded to drill for oil. Well No. 3 was begun in June, 1910, and carried to a depth of 1880 feet, at an actual cost of \$25,039.87. Oil was not struck in paying quantities, but a good flow of water was found. The company then decided to enter the field as a water utility, and the first sales of water were made that same year to consumers in the vicinity of Maricopa.

Well No. 4 was drilled during the years 1911 to 1913 to a depth of 1510 feet at a cost of \$8,436.71, for the purpose of developing more water. Well No. 2 has been abandoned, but in August, 1918, applicant began overhauling and deepening Well No. 1 (which up to that time had been useless), for the purpose of obtaining additional water. This work is still in progress.

In addition to the \$30,000 worth of stock, applicant also paid \$9,205.50 in connection with obtaining the original lease, although for just what purposes the last sum was paid, or whether paid in money or stock, applicant's officers do not appear to know.

The old lease was surrendered and a new lease entered into with the Fort Wayne Oil Company on June 20, 1914, by which the amount of land leased was reduced from 40 acres to 10 acres, and the royalty to be paid to the Fort Wayne Company was reduced from 9% to 5% of applicant's gross sales of water.

A thorough investigation of applicant's physical property and records was made by C. I. Rhodes, one of the Commission's hydraulic engineers; but as the original cost records of applicant are almost entirely lacking, it was necessary to estimate the cost of the various elements. From the figures compiled by Mr. Rhodes, which were not contested by applicant, we find the total estimated original cost of applicant's physical properties to be \$184,881, and the total reproduction cost \$282,704.

Applicant's pumping expenses are exceedingly high, having amounted in 1918 to an average of approximately 1.7 cents per barrel. This is due to the fact that the water contains a high percentage of soluble salt which readily crystallizes on the walls of the pipes. The water is pumped from a depth of about 450 feet, at a temperature of approximately 90 degrees. As it passes along the mains from the pumps, these salts form a heavy incrustation in the pipes amounting in a year's time to a thickness of over three inches, thus reducing in that time the net aperture in a seven inch pipe to approximately one inch. This deposit is most plentiful for the first 4,000 feet from the wells, after which it is not so serious. These pipes have to be cleaned once a year, at an average cost of about \$800.00. The additional pressure above the normal required on account of this incrustation on the main running to the higher dis-

tricts varies from zero, when the pipes are freshly cleaned, to 150 pounds per square inch and reaches 40 pounds per square inch ~~maximum~~ on the line serving the lower districts. These additional pressures naturally increase the power required. The idea occurred to the Commission that possibly much money could be saved by cooling the water and allowing the salts to be precipitated, and we suggest that the Company investigate this matter carefully.

We might here state that applicant's books leave much to be desired as to the form in which they are kept, and we shall expect applicant hereafter to keep its books under the uniform classification of accounts of water corporations, as prescribed by this Commission.

The water furnished by applicant is used only for boiler feed purposes, for which it is fairly satisfactory. On account of its salts it could not, of course, be used for domestic purposes. The water is, in general, served to two groups of consumers, those having considerable elevation above the plant, and those located at a lower elevation than the plant. The rate now paid by the former group is $2\frac{1}{2}$ cents per barrel, and the rate paid by the latter is 2 cents per barrel.

In considering the invested capital upon which applicant is entitled to a reasonable return, we are of the opinion that the \$39,205.50, or its equivalent, paid for the lease, should not be included. This may have been an entirely proper expenditure for an oil company intending to develop oil but, whether it was or not, it certainly would not have been a proper expenditure for a company to have made in order to obtain water. In this connection

we might call attention to the alteration of the original lease by which the royalty paid to the lessor was reduced from 9% to 5% of the gross sales of water. If the lease had been an asset when the royalty was 9%, it hardly stands to reason that the lessor would have reduced this royalty to 5% after applicant had been in operation as a water company for some four years.

The amount expended by applicant upon Well No. 3, while expended primarily for the development of oil, would, under all the circumstances, not have been excessive as an expenditure for the development of water if applicant had at that time been endeavoring to develop water instead of oil. Accordingly, the entire cost of this well has been included as part of applicant's capital, used and useful in the operation of its system.

We shall, then, take \$184,881.00, the estimated historical cost of applicant's physical properties, as the invested capital used in its public utility business. The interest on this amount at 8% per annum is approximately \$14,790.00, while the sinking fund annuity at 6% compounded totals \$5,624.00.

Applicant submitted a report showing its operating expenses for the year 1918 to be \$47,731.06. Its bookkeeping is so far from the standard that the items submitted by the company had to be substantially revised before they could be of any value in this decision. Several of the estimated charges were, in our opinion, too high and we believe that by practicing rigid economy applicant could reduce its operating expenses to approximately \$40,000.00. This would result in total annual charges as follows:

Interest, - - - - -	\$14,790.00
Maintenance and operating cost, - - -	39,400.00
Depreciation, - - - - -	5,624.00
Total, - - - - -	<u>\$59,814.00</u>

Applicant's sales of water for 1918 were 1,848,950 barrels, and applicant estimated that its sales for 1919 would amount to two million barrels. Under all the conditions of this case, we are of the opinion that no distinction in rates should be made between the so-called high level and low level users. We shall, accordingly, authorize

applicant to increase its rates as set forth in the following order, upon a uniform block system for all its consumers, which, so far as it is possible to forecast, should result in a gross annual revenue to applicant of about \$60,000.

ORDER

The AUGUST OIL COMPANY, a public utility corporation, engaged in the business of supplying water for commercial use in the Midway and Sunset Oil Fields, Kern County, having filed its application in the above-entitled proceeding for an order revising and increasing its rates, public hearings having been held thereon, and the Commission being fully advised in the premises,--

THE COMMISSION HEREBY FINDS AS A FACT that the present rates charged by applicant are unreasonable and noncompensatory, and that the rates hereinafter authorized are just and reasonable. Basing its order upon the foregoing findings of fact and on the further findings of fact in the opinion which precedes this order,--

IT IS HEREBY ORDERED:

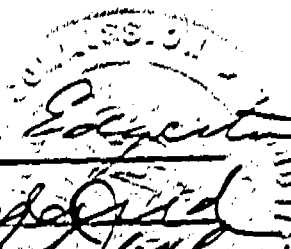
1. That August Oil Company be, and it is hereby, authorized to file with this Commission, and charge its consumers on all meter readings after July 1, 1919, the following rates:

Minimum \$10.00 per month
For first 30,000 barrels per month, - .03 per barrel
For over 30,000 " " " - .02½ " "

2. Applicant shall hereafter keep its books under the uniform classification of accounts of water corporations as described by the Railroad Commission.

3. Applicant shall file, within 30 days from the date of this decision, four copies of its proposed rules and regulations.

Dated at San Francisco, California, this 3^d
day of July, 1919.


Edwin O. Edgerton
H. D. Longford
Frank W. Miller
H. C. Bourdage
James Martin
Commissioners.