

Decision No. 6590

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application of)
the RIVER BEND GAS AND WATER COMPANY) Application No. 3552
for an order authorizing an Increase) Second Supplemental Appli-
in Gas Rates.) cation.

Chaffee E. Hall for Applicant.
Andrew Erikson for City of Kingsburg.

BRUNDIGE, Commissioner.

O P I N I O N .

In this proceeding the River Bend Gas and Water Company, hereinafter referred to as applicant, again asks for authority to increase its rates and charges for gas.

A hearing was held at Kingsburg before Commissioner Brundige on June 25, 1919, at which time evidence was introduced and the matter submitted.

Applicant is engaged in the manufacture and distribution of gas as a public utility in the cities of Dinuba, Reedley and Kingsburg, and supplies the town of Parlier with both gas and water. It owns and operates a gas generating plant located at Dinuba from which gas is delivered to the above mentioned communities, through a high pressure transmission system.

Applicant's rates for gas service were first reviewed by this Commission on March 14, 1918, and an increase was authorized under Decision No. 5323, dated April 20, 1918. On account of further advances in the cost of oil used at its manufacturing plant, the rates, as authorized, were found to be unremunerative, and a new schedule of gas rates was therefore authorized for the Dinuba, Reedley and Earlier Districts by Decision No. 5864, dated October 25, 1918, and for the Kingsburg territory by Decision No. 5944, dated December 5, 1918.

Applicant now alleges that notwithstanding the increased rates charged since October and December 1918, and in spite of its efforts toward continued efficient and economical operations, its gas business is still conducted at a loss. During the months of January and February, 1919, a net operating loss, amounting to \$600.52 was incurred, and during March and April, 1919, the loss was \$1094.00; with a continuance of present rates and costs, the total loss for the year 1919 will be at least \$5600.00. Applicant now asks for relief in the form of higher rates, such as will permit it to earn sufficient for operating expenses, depreciation and a fair return upon its investment.

During the year 1918, applicant's gas sales amounted to 39,391,500 cubic feet, in the manufacture of which 10,282 barrels of oil were used. Fuel oil used under boilers is reported at 4,845 barrels for the year.

For the first 4 months of 1919, gas sales are reported as 14,384,000 cubic feet, oil used in gas manufacture 3,976 barrels, and fuel oil at 1,985 barrels. On this basis the total oil used for gas manufacture and for fuel amounts to 17.4 gallons per thousand cubic feet of gas sold.

The following table gives a resume of applicant's gas operations from January 1st, 1917 to date with an estimate for the year beginning July 1, 1919:

TABLE I

River Bend Gas and Water Company

Comparative Operating Statistics - Gas

<u>Item</u>	<u>1917</u>	<u>1918</u>	<u>4 Mos. 1919</u>	<u>Estimated July 1, 1919 to July 1, 1920</u>
Average number of consumers	1 247	1 423	1 445	1 500
Total Sales per M.cu.ft.	33 060.0	39 391.5	14 384.0	42 000.0
Barrels of Oil used	14 700	15 127	5 963	15 000
Average Cost of Oil per Bbl. \$	\$.61	\$1.77	\$2.05	\$1.77
Sales per Consumer (Cu.ft.)	26 512	27 680	9 954	28 000
Gals. oil per M. Sold	18.6	16.1	17.4	15.0
Cost of Oil per M. Sold	\$.358	\$.678	\$.849	\$.632
Average Revenue per M.Cu.Ft. Sold	\$1.08	\$1.28	\$1.53	_____

A discrepancy as to the amount of oil used during the year 1918 was discovered in the annual report of applicant to the Commission, the difference between the oil purchased and that reported as used at the manufacturing plant, amounted to some 2,350 barrels, this was found to be due to the large amount of oil in storage on January 1, 1919, whereas on January 1, 1918 there was practically no oil on hand. In other words, the total oil purchased was reported instead of the oil used, no account having been taken of the amount in storage. Another fact brought to light was the loss of a large amount of oil in 1918, due to leaks in the oil storage tank and to accidents in the unloading of a tank car.

An analysis of production expense during the first 4 months of 1919 shows that the oil used in gas manufacture for this period was but 11.6 gallons per thousand cubic

feet sold, whereas the oil used as fuel averaged 5.8 gallons, or exactly one-half as much as was used in the direct manufacture of the gas.

This wasteful operation of the steam plant is partly due to insufficient boiler capacity. The continuous use of a large steam driven gas compressor, operating twenty-four hours daily, requires the maintenance of 100 pounds of steam pressure at all times. Proper combustion of the lamp black fuel is not obtained, due to the shape of the fire-box and the reduced grate area, which is too small for satisfactory combustion of the fuel used.

It has been necessary, therefore, to reinforce the fires by the addition of oil, which causes considerable waste, and a very low efficiency in the use of the combined fuels results. In order to keep up a hot fire with lampblack fuel, excess air is used as a draft. More air is often admitted to the boiler setting than is required, which carries the heat out through the stack instead of into the water.

Applicant operates three boilers rated at 80 horsepower, 45 horsepower and 20 horsepower each. The largest boiler is generally used; however, during periods of shut-down for repairs, or for cleaning tubes, etc. the two small units are operated, using oil as fuel.

Under full load, the plant requires about 105 horsepower, although the average load on the boilers is not over 75 horsepower. In order to reduce the cost of operation and avoid overloading of the boilers, applicant should install an additional boiler of at least 125 horsepower rating, which extra capacity is necessary for the proper combustion of lampblack without the costly addition of fuel oil.

Under the present method of operation, it is necessary to employ at the plant two gas-makers, two firemen and one helper. The gas storage capacity, being only 40,000 cubic feet, necessitates the continuous operation of the gas generators from 6 A.M. to 10 P.M. Another man is on duty all night, keeping up fires and maintaining the required pressures on the transmission mains.

The compressor must be operated continuously to provide for street lighting and a few all night consumers. Applicant could reduce its expense for labor alone to the extent of over \$1,500 per year by installing sufficient holder capacity and reducing the operation of its generators from 16 to 8 hours per day. By the use of a small auxiliary compressor, electrically driven for reduced load during off-peak hours, a further substantial saving could be effected, as this would obviate the night operation of boilers and the large steam driven compressor.

The gas plant was originally built to serve Dinuba and the local system was supplied through mains direct from the storage holder. Due to stoppages in the distributing mains, and, possibly, also to the inadequacy of the system by reason of increased consumption, much difficulty was encountered in maintaining sufficient pressure. These conditions have been improved, and now the gas supplied to Dinuba is first compressed to about 35 pounds pressure in the compression tanks and then reduced for distribution to about 8 inches of water pressure. It is suggested that the Dinuba system could be more economically carried on the holder pressure of 4 inches during the off-peak hours and at night, and the high pressure supply from the compression tanks be only employed as required during times of heavy use, and then only in the nature of a booster to increase the velocity of

the flow from the holder itself.

All these points are set forth as a means of providing more economical operations. The heavy increase in the cost of fuel and other gas manufacturing materials, together with the necessary increases in wages already incurred, has resulted in a situation demanding the strictest economy in the future.

Table II herewith shows the valuation of the gas properties of applicant as of November 1, 1916, and adopted in Decision 4082, brought up to date by the expenditures for additions and betterments actually incurred to December 31, 1918 and extended to cover estimated additions to June 30, 1920.

TABLE II

Operative Gas Capital

River Bend Gas and Water Company

	<u>Capital as of Nov. 1, 1916</u>	<u>Additions and Betterments to Dec. 31, 1918</u>	<u>Capital as of Dec. 31, 1918</u>
Landed Capital	\$ 1 006.00	\$ 451.00	\$ 1 457.00
Production Capital	25 702.00	15 800.00	41 502.00
Transmission Capital	21 088.00	23 807.00	44 895.00
Distribution Capital	55 752.00	22 372.00	78 124.00
General Capital	17 990.00	6 766.00	24 756.00
Materials & Supplies	<u>5 000.00</u>	<u>3 984.00</u>	<u>8 984.00</u>
Total	\$126 538.00	\$ 73 180.00	\$ 199 718.00
	<u>Dec. 31, 1918</u>	<u>Estimated Additions and Betterments to June 30, 1920</u>	<u>Estimated Capital as of June 30, 1920</u>
<u>Operative Gas Capital</u>			
Landed Capital	\$ 1 457.00	\$	\$ 1 457.00
Production Capital	41 502.00	18 250.00	59 752.00
Transmission Capital	44 895.00	2 500.00	47 395.00
Distribution Capital	78 124.00	4 250.00	82 374.00
General Capital	24 756.00	300.00	25 056.00
Material & Supplies	<u>8 984.00</u>	<u></u>	<u>8 984.00</u>
Total	\$199 718.00	\$ 25 300.00	\$ 225 018.00

Inasmuch as this addition to capital yet is to be expended, the Commission believes it is fair to estimate the average capital for the year ending June 30, 1920, in the sum of \$210,000.00, and this figure will be used as a rate base for the purpose of this proceeding. For the gas properties herein the sum of \$4,000.00 is a proper annual depreciation allowance.

In Table III is shown applicant's gas revenues and expenses for the year 1918, for the first 4 months of 1919, and an estimate for the year ending June 30, 1920:

TABLE III.

River Bend Gas and Water Company

Gas Revenues and Expenses

<u>Item</u>	<u>Calendar Year 1918</u>	<u>4 Mos. Ending Apr. 30, 1919</u>	<u>Estimates for 12 Mos. Ending June 30, 1920</u>
Number of Consumers	1 423	1 445	1 500
Gas Sales per period cu.ft.	39 391 500	14 384 000	42 000 000
Rate Base (Ave.)	\$ 195 000	\$ 200 000	\$ 210 000
Gross Revenues,	\$ 53 011	\$ 21 765	\$ 65 100*
Production Expense	\$ 37 994	\$ 15 778	\$ 37 800
Trans. & Dist. Expense	4 901	1 843	5 400
Commercial Expense	4 986	1 931	5 200
General & Misc. Expense	4 792	970	4 800
Sub-Total	\$ 52 673	\$ 20 522	\$ 53 200
Taxes	\$ 2 971	\$ 1 253	\$ 3 883**
Depreciation	3 600	1 210	4 000
Grand Total Expense	\$ 59 244	\$ 22 985	\$ 61 083
Net Revenue available for Return	\$ 6 233(a)	\$ 1 220(a)	\$ 4 017
Rate of Return on Capital			1.9%

*Under rates now in effect.

**Includes one-half franchise tax, City of Dinuba (\$205.00)
(a) Deficit.

This indicates that, for the year estimated, the rates now in effect will produce a return of but 1.9 per cent on applicant's operative capital.

For the first four months of 1919, the average revenue per thousand cubic feet of gas sold was only \$1.52, due to the fact that a large number of consumers obtain the reduced rates on account of their large consumption, and also, on account of the street lighting contracts in the City of Dinuba, and the Parlier lighting district which are not remunerative.

The contract with the city for the Dinuba street lights has expired and the Company is still furnishing the municipal arcs with gas at the former rate; arrangements should be made to renew this contract under a more equitable and compensatory basis. In the Parlier lighting district, about 20 single mantle arcs are supplied at \$2.50 per lamp per month. This contract does not expire until June 1, 1921, and the service at this rate means a continued loss.

The present rates of the applicant for all gas sold authorized in Decisions Nos. 5864 and 5944, in effect since October and December 1918, respectively, are as follows:

		<u>Gross</u>	<u>Net</u>
First	500 cu.ft. or less per meter month	1.10	1.00
Next	2 500 cu.ft. per meter per month	\$1.80	\$1.70
Next	4 000 cu.ft. per meter per month	1.60	1.50
Next	8 000 cu.ft. per meter per month		1.30
All Over	15 000 cu.ft. per meter per month		1.20

During the first four months of 1919, applicant, under these rates, failed to pay operating expenses. In order to meet operating expenses, including depreciation, for the year ending June 30, 1920, the gross revenue would

have to be approximately \$61,000.00. Should the return be increased so as to earn a full 8 per cent on the investment, the gross revenue for the coming 12 months must reach \$79,000.00, or an increase of approximately \$14,000.00 per annum over the revenue from present rates.

Taking the total sales, for the year ending June 30, 1920, at 42,000,000 cubic feet, the average revenue per thousand feet sold should equal \$1.88 in order to provide the revenue for an 8 per cent return. The quality of the service rendered by applicant throughout its entire territory was found, on inspection, to be of a high standard. Its consumers appear to be well satisfied with the Company's policy and management, and no opposition was voiced to the applicant's request for an increase in rates.

Based on the foregoing, it appears that a higher schedule of rates is necessary in order that good service be continued, and give applicant a return on its capital. However, in estimating the expenses that will be incurred by applicant for the year ending June 30, 1920, production costs have been reduced to an amount more consistent with efficient operation. The past costs of operation do not afford a reasonable basis for expense. Loss of oil, due to circumstances entirely within control of a utility, should not be considered as a proper charge against the cost of the gas produced. Neither is abnormally high fuel expense justified, especially when it was shown and admitted by the management as being to a large extent due to inadequate facilities. The new contract for oil for the next 12 months will allow a small saving in the oil costs over those which have been incurred since May, 1918. ~~Unfortunately~~ ^{However}, the saving in the price paid for oil will be largely absorbed

by the additional price paid for labor. Some reduction in manufacturing costs must be made by the applicant by enforcing the strictest economy in operations. The quantity of oil used, as shown by the plant report, must be reduced to an amount consistent with the size and character of this plant. Leakage and unaccounted for gas should be reduced to a minimum, and some arrangements immediately introduced whereby the accuracy of the consumers' meters can be checked. The revenues from street lighting in the City of Dinuba should be revised upon a more equitable basis, and no long-time contracts for such service should be hereafter made without some provisions for abnormal conditions such as have existed for some time.

Consideration should be given to the good quality of the service which is supplied by this applicant in the face of increasing operating costs, and bearing in mind that its present financial condition is a result, partially at least, of deficiencies in revenues obtained under rates lately authorized by this Commission, it appears reasonable and proper to grant it the relief which is clearly necessary. The schedule of gas rates set forth in the order herein is proposed to offset the increased costs of operation and will yield a reasonable return on applicant's capital.

O R D E R -

RIVER BEND GAS AND WATER COMPANY having applied to increase its rates and charges for gas, hearings having been held, the matter being now submitted and ready for decision,

THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA
 HEREBY FINDS AS A FACT that the present rates for gas of River
 Bend Gas and Water Company are, under present conditions of
 costs of operation, not just and reasonable rates and that the
 rates hereinafter established are just and reasonable rates
 for gas.

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

IT IS HEREBY ORDERED that Riverbend Gas and Water
 Company be and is hereby authorized to charge and collect
 the following rates for gas, based on all regular meter
 readings taken on and after July 18, 1919. *July 18, 1919*

SCHEDULE OF GAS RATES

		<u>Gross</u>	<u>Net</u>
First	500 cu.ft. or less per meter per month	\$1.20	\$1.10
Next	3 500 cu.ft. per meter per month	1.90	per M. Cu.Ft. 1.80
Next	6 000 " " " " "	1.70	1.60
Next	15 000 " " " " "		1.40
All over	25 000 " " " " "		1.20

The net rates shall be effective for all bills paid within
 ten (10) days after the first of the month following each
 meter reading date.

PROVIDED, that the River Bend Gas and Water Com-
 pany shall, within ten (10) days of the date of this order,

file with the Railroad Commission the gas rates herein established.

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 16th day of July, 1919.

A. D. Loveland
H. V. Bunting
Irving Martin
Commissioners.