

Decision No. 659

In the matter of the application of Southern Counties Gas Company, a corporation, to fix a rate in the City of Orange, County of Orange, at which gas may be sold for lighting and heating purposes.

Application No. 380

W. H. Goodwin and Hunsaker & Britt for applicant.
W. M. Brown, City Attorney, for the City of Orange.

ESHERMAN and LOVELAND, Commissioners.

O P I N I O N

The applicant is a public utility gas corporation, serving the cities of Santa Ana, Orange, Anaheim and Fullerton, in the County of Orange. It has a rate in Santa Ana of \$1.00 per thousand cubic feet and a rate of \$1.25 in Fullerton and Anaheim, but the city authorities of the City of Orange fixed a rate of \$1.15 per thousand cubic feet for gas to be delivered in that city.

On the 2d day of October, 1912, the gas company brought an action in the Superior Court of Orange County, contesting the ordinance fixing \$1.15 as the rate for gas in Orange, which action is still pending. On the 12th day of November, 1912, at an election duly and regularly held, the voters of the City of Orange surrendered their power of control over gas corporations to this Commission, and on the 27th of January, 1913, this application was filed.

It is set out in the petition that between the 1st day of July, 1912 and the 1st day of January, 1913, the gas company, applicant herein, sold to the inhabitants of the City of Orange 5,182,000 cubic feet of gas and that the actual cost of manufacturing such gas was 91.3 cents per/ ^{thousand} cubic feet or

\$4,731.16 and that under the \$1.15 rate the company received therefor \$6,055.38.

It is alleged that the reasonable value of the property necessary in the delivery of gas to the City of Orange, and owned by applicant, is \$48,273.07, and in order to furnish a return upon such amount and to take care of the other necessary charges, the applicant desires that a rate of \$1.35 per thousand cubic feet be fixed.

The Company in addition to its Orange County plant has a plant at Whittier serving Whittier, one at Monrovia serving Monrovia and by high pressure system the Towns of Sierra Madre, Arcadia, South Santa Anita and El Monte, and one at Covina serving Covina and by high pressure the Towns of Azuza, Glendora, San Gabriel and unincorporated territory contiguous thereto. Inasmuch as these plants are entirely separate from the Orange County plants it will not be necessary to consider them further in this proceeding, except as regards general office furniture and fixtures, and certain general overhead expenses which are incurred for the benefit of all of the business of the Company.

The Orange plant which is directly involved in this application was first operated as a separate company with a generating plant at Orange, which has since been abandoned. It is in evidence that the service under the former management was poor, and that the service at present is good. Since consolidation the system in Orange County consists of the Santa Ana plant and a high pressure line serving Orange, Anaheim and Fullerton. Of the total amount of gas furnished approximately 63% is being used in Santa Ana, 12.5% in Orange, 14.2% in Anaheim and 10.3% in Fullerton.

Mr. A. R. Kelley, Assistant Engineer of the Commission, made a valuation of the system for the Commission. He followed the usual method of pro rating jointly used property on the percentage of gas used. The general office furniture and fixtures were pro-rated among the various general districts on the basis of the total

amount of gas generated. To that part charged to Santa Ana district was added the value of the Santa Ana office. The percent of this amount charged to Orange was the same as the percentage of gas sold in Orange was of the total amount sold in the whole Santa Ana district during the year 1912. The same percentage was used in the accounts covering gas plant, land, general equipment, tools, implements and laboratory equipment. For the reason that the high pressure transmission main supplying Orange, Anaheim, and Fullerton is used by about 60 consumers in Santa Ana that portion of the main lying between the generating station and the Santa Ana River was pro rated among the three towns and the 60 consumers. The remaining portion serving exclusively the three towns was pro rated among them on the basis of gas sold. The proper method of pro rating the high pressure system between the various towns served was the main question in issue between the Gas Company and the City of Orange. Mr. Kelley, in his recommendation to the Commission, takes the view that it is fair to consider these towns as parts of the whole system and to pro rate the property necessary to serve the consumers from the high pressure system on the basis of the amount of gas sold, by reason of the fact that each one of these towns may be more economically and effeciently served because of the economy made possible by the larger system and the larger amount of gas produced.

It was agreed by both the attorney for the applicant and the City Attorney of Orange that each unit of a system should bear that proportionate cost of the extension of the system to other consumers which the saving to such portion of the system represents. In other words, suppose that we had a gas generating plant and distribution system in Santa Ana alone. If by reasonably extending the system to Orange, Anaheim and Fullerton and the attendant increase in the amount of gas sold, the cost per unit of gas in Santa Ana to be delivered to the consumers should be decreased, then a portion of the cost of the added system can be properly added to the cost of the Santa Ana plant, and while the interest upon the value

of the plant would be increased to Santa Ana consumers, yet there would be a corresponding reduction in the cost of operation, and so long as the reduction in the cost of operation equalled the increase in the interest charged on the investment, the consumers in Santa Ana would have no right to complain. In justice, however, it might be proper to accord them some benefit from the extension not off-set by an interest charge on value of additional property necessary in the extension of the system.

On the basis used by Mr. Kelley the high pressure system should be divided as follows:

- 4.2 to Santa Ana representing the 60 Santa Ana consumers taking from the high pressure system,
- 32.3 to Orange,
- 36.4 to Anaheim, and
- 26.5 to Fullerton.

By reason of the principle just discussed it will be seen that while this represents a fair apportionment between the consumers from the high pressure system when considered alone, yet there should be that reduction from these percentages which the saving to the Santa Ana consumers justifies, and the valuation found by the engineers of the Commission admittedly do not take this matter into consideration, and therefore by so much are excessive as regards the high pressure patrons.

On the basis used Mr. Kelley presented to the Commission a cost of reproduction of the system new totalling \$45,850.00; a present value of reproducing the system new with the amount of depreciation which is found to exist in it deducted therefrom of \$39,150.00. The Company's estimate, as has already been pointed out, amounts to \$48,273.07. The difference between the Company's engineers and the engineers of the Commission is mainly due to errors in book accounts and failure to take into consideration depreciation.

The receipts from the sale of gas for the year 1912 to the City of Orange amount to \$11,839.53, and the total amount of gas

sold was 9,932,400 cubic feet. According to the petition it costs the Company 91.3¢ per thousand cubic feet to manufacture and deliver a thousand cubic feet of gas to the consumers in Orange.

While the Commission would have a right to assume the correctness as against the company, of this statement and to conclude that the sum of 91.3 cents per thousand cubic feet set up in the petition by the applicant as being the cost of delivering gas to Orange, represents the entire cost, yet a careful inspection of the books of the company shows that 91.3 cents per thousand cubic feet does not take into consideration a sufficient allowance for depreciation. Assuming that the amount set out by the company did properly represent the entire cost, having regard to all the necessary items, of delivering gas to Orange, the entire cost to the company during the year 1912, would be \$9,067.91, while it received a gross compensation for such delivery of \$11,839.53, leaving a balance of \$2,771.62, which is \$30 in excess of 7 per cent on the valuation of the property found by Mr. Kelley. During the last six months of 1912, the \$1.15 rate was in effect and the records show that the average during such six months was about the average for the year, and hence we would be justified in concluding that the \$1.15 rate under present conditions would yield a reasonable return to this company, but this Commission has no disposition to consider technicalities which prevent a just determination of a case, and it is certainly proper that an allowance be made to this company in its rates to take care of depreciation.

In addition to the benefits to Santa Ana arising from the construction of the high pressure system to these other towns which has not been taken into consideration in favor of these towns and against Santa Ana which should have some place in a determination of this case, we also find another matter which should have an effect upon the rates in Orange. The distributing mains of this system already extend to all parts of the city and in many instances extensions have been made where there was very little business in

sight. It is also noticeable that many houses are not using gas, which, according to the testimony have the appearance of being good prospects. The result of all this is that the number of feet of main per consumer in the City of Orange is considerably larger than in other cities of similar size. It is well established that a higher rate may not be charged to a few consumers when a system is so constructed that it could serve many more at slightly additional cost. It is the testimony of the engineer for the Commission that in his opinion the number of consumers in Orange could be substantially increased, and it is in evidence that a ten per cent increase has been brought about in the past year, and Mr. Kelley testifies that an increase between that and twenty per cent may be expected by careful canvass. However, this is an estimate, but the Commission is of the opinion that this company should make added efforts to increase the number of its consumers and the amount of gas sold in Orange, thereby obviating the necessity of a greatly increased rate.

Taking into consideration a probable reasonable increase of consumption of from ten to twenty per cent in the City of Orange and a necessary deduction from the amount of property used in the high pressure system to be charged against the City of Santa Ana, we still are of the opinion that some increase in rate over the \$1.15 now in effect should be made to take care of depreciation. In reaching this conclusion we call attention to the fact that the present value of the property, so-called, as found by the engineers is only one of several elements which may properly be considered by the Commission in a rate fixing inquiry.

Smythe vs. Ames, 169 U.S. 466;
San Diego Land & Town Co. vs. Jasper, 189 U.S. 439;
Knoxville vs. Knoxville Water Co., 212 U.S. 1;
Wilcox vs. Consolidated Gas Co., 212 U.S. 19.

It is not proper to urge that the city authorities of Santa Ana have imposed a rate which is too low as affecting the rate in Orange. Concerning this matter we have no information, but if such were the fact it would make absolutely no difference with a

proper determination of a rate for the City of Orange. A mere statement of this principle is sufficient, as it is well recognized and thoroughly established.

A comparison of the gas rates in various cities of the State show that the rates prevailing in Orange County under the system of applicant are, comparatively speaking, not high. The Commission after a careful and exhaustive investigation, reduced the rate for gas in the City of Palo Alto from \$1.50 to \$1.20. While no two communities can be properly compared, yet Palo Alto is a considerably larger city than Orange, and there are certain other considerations in favor of more economical distribution there than in territory served by applicant. On the other hand, the Palo Alto Company secures its gas at wholesale from another company and did not manufacture it itself. The larger cities have a rate considerably lower, but as has already been said, the rates of applicant in this territory compare favorably with the rates existing under similar systems elsewhere.

After a careful consideration of all the evidence we are of the opinion that a rate of \$1.22 is a proper rate to be charged by applicant in the City of Orange. It is not to be understood that this rate is to be taken as a measure of the proper rate in the other cities served from this system, but taking into consideration the value of the property as apportioned to this city, the cost of producing the gas, the necessary depreciation and the probability of added consumers being secured, we believe that this is a proper rate.

While we believe this conclusion is justified at the present time, if, however, conditions change either in favor of or against the applicant, this Commission will again, when the matter is brought to its attention, revise the rates as the facts at such time may warrant.

We submit the following order:

O R D E R .

SOUTHERN COUNTIES GAS COMPANY having applied to this Commission for an order fixing the rates to be charged by it to its consumers in the City of Orange, County of Orange, State of California, and a hearing having been held and being fully apprised in the premises,

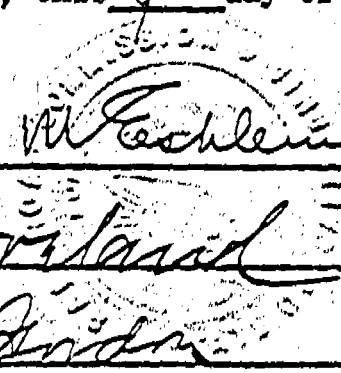
THE COMMISSION HEREBY FINDS AS A FACT that a rate of \$1.22 per thousand cubic feet is a proper rate to be charged by the applicant to its consumers in the City of Orange, and basing its order on this finding of fact and the findings of fact in the opinion,

IT IS HEREBY ORDERED that a rate of \$1.22 per thousand cubic feet is hereby established as a just and reasonable rate to be charged by the applicant herein to its consumers in the City of Orange.

AND IT IS FURTHER ORDERED that the applicant set aside from income as a depreciation fund for the first year after this order for its plant used for the service of its consumers in the City of Orange not less than \$1200.00, said depreciation fund to be invested or disposed of in a way hereafter to be determined by this Commission.

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 9th day of
May, 1913.


Wm. M. Eckleman
W. L. ...
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Commissioners.