

Decision No. 6631

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA

In the Matter of the Appli-	:	
cation of OAKDALE GAS COM-	:	Application
PANY for authorization to	:	No. 4801
increase rates	:	

Guy W. Anderson,
For Applicant.

R. W. Reeder,
For City of Oakdale.

Martin, Commissioner:

O P I N I O N

Oakdale Gas Company, operating an artificial gas plant in Oakdale, and distributing gas in Oakdale and Riverbank, applies for authority to increase its rates for gas, alleging that on account of the continued increases in the price of oil, labor and materials, its present and future operations, under present rates, cannot be conducted except at an actual loss. Applicant also alleges that the rates granted by this Commission

in its Decision No. 5303 issued April 12, 1918 were not then, and are not now, sufficient to allow applicant an earning on its investment, after providing for the cost of operations which have prevailed during the past sixteen months.

A hearing on this matter was held in Oakdale on August 15, 1919, at which time evidence was taken and the matter thereupon submitted.

Applicant's rates for gas, as authorized by Decision No. 5303 supra, are as follows:

	<u>Gross</u>	<u>Net</u>
First 500 Cu. Ft. or less per meter per Mo.	\$ 1.10	\$1.00
Next 2 500 Cu. Ft. per Meter per Mo. per M. Cu. Ft.	1.80	1.70
" 5 000 Cu. Ft. per Meter per Mo. per M. Cu. Ft.	1.55	1.50
" 7 000 Cu. Ft. per Meter Per Mo. per M. Cu. Ft.		1.25
All Over 15 000 Cu. Ft. per Meter per Mo. per M. Cu. Ft.		1.10

The net rate is effective if the bill is paid on or before the tenth of the month next succeeding that for which the bill is rendered. If the bill is not paid on or before the tenth, the gross charge is effective.

A valuation of the gas properties of applicant, as of August 1, 1919, submitted in connection with this matter is given as follows:

Landed Capital	\$ 1,105.00
Production Capital	16,761.00
Transmission Capital	10 655.00

Brot. Fowd.	\$ 28,521.00
Distribution Capital	23 581.00
General Capital	1 009.00
Intangible Capital	4 915.00
Engineering Expense	2 610.00
Materials and supplies	1 200.00
Working Cash Capital	<u>2,500.00</u>
<u>TOTAL Capital</u>	\$ 64,336.00

The above figures are not the result of a detailed inventory and appraisal, but represent, as far as it is possible to ascertain, the actual cost of the properties as set forth in applicant's annual reports to this Commission. Applicant has been under the jurisdiction of the Commission during its entire corporate existence, and its accounts have been kept according to the prescribed classifications. It is fair, therefore, to conclude that these figures represent within reasonable limits the actual cost of the properties upon which rates are to be based.

For the twelve months ending June 30, 1919, applicant's accounts show the following:

Production expense and Repairs to Capital	\$ 7,973.53
Distribution Expense and Repairs to Capital	977.24
Salaries and Expense of Commercial and General Offices	2 544.54
Miscellaneous General Expense	599.94
Taxes	<u>805.45</u>
Total expenses	\$12,900.80
Gross Revenues	13,672.00
Net Revenue Available for return on Investment and Depc'n	771.20
Rate of Return on Capital for Depreciation & Interest	1.2%

The following table shows applicant's estimated expenses for the year ending September 1, 1920:

Estimated sales	8,000,000 Cu. Ft.
" consumers	400
Cost of Oil per bbl.	\$1.95
Cost of Oil per M. Cu. Ft. Sold	.648
Production expense	\$ 6,150.00
Transmission and distribution expense	1,200.00
Commercial and general expense	4,800.00
Taxes	<u>850.00</u>
<u>Total expenses</u>	\$13,000.00
Depreciation	1,600.00
Return @ 6% on \$50,000	<u>3,000.00</u>
Grand Total Expenses	\$17,600.00

The average rate for gas sold would, from this analysis, have to be \$2.20 per thousand cubic feet in order to yield a return of 6% on the minimum value of the properties, after paying operating expenses.

The territory served by the Oakdale Gas Company embodies the City of Oakdale, the unincorporated town of Riverbank and the districts adjacent to the highway between these two communities. The company first served gas in Oakdale in 1913 and in Riverbank in 1914. The development period can now be said to be over. There is, however, a considerable number of consumers which it is possible to secure by means of active and continued solicitation. Applicant's manager expressed as his opinion that there were, at the present time, at least seventy-five prospective consumers immediately adjacent to the present distribution and transmission lines.

Applicant is endeavoring to give its consumers a good grade of service, and no complaint against the service was voiced at the hearing. The territory served, however, is not dense enough to yield, under present rates, a reasonable return on investment necessary to serve. Applicant has already extended its facilities into territory which, although developing, has not as yet proved profitable. In fact, it is doubtful if the losses already incurred will ever be recovered.

This utility has not, since its inception, earned sufficient above its expenses and bond interest to enable it to set aside any depreciation reserve.

There is no question as to the necessity for an increase in applicant's gas rates, but it is also evident that the total revenue needed to provide a full return on the investment, together with a proper amount for a depreciation reserve, would require the charging of a rate that might be in excess of the value of the service.

It is not unreasonable to suppose that such a rate would shortly result in an actual reduction of applicant's revenues. The possibility of such a rate adjustment must not be overlooked.

Under normal conditions, the quantity of gas consumed by the customers of this applicant, will average about 22,000 cubic feet per annum. Under excessive rates both the average amount of gas used and the number of consumers will decrease. In order to justify the

increase proposed by this applicant, it is necessary to anticipate the possible loss of business. While the proposed increases may appear to be quite material, the evidence herein shows that the cost of other fuels in this territory has increased, and, therefore, competition which might arise between the gas fuel supplied by the applicant and such other fuels as oil, wood, coal, etc. is not entirely a vital factor.

It was contended that the Riverbank service added to the cost of supplying Oakdale. Upon investigation, it was found that the taking on of the Riverbank business improved the situation as a whole, and that the additional cost of supplying Riverbank was smaller in proportion than the cost of supplying Oakdale alone. The total investment, including the manufacturing plant, boosting and transmission equipment and distribution system taken as a whole actually reduces the average cost per thousand cubic feet of gas sold, as compared with the cost of serving Oakdale separately. The size of the manufacturing plant and the necessary fixed costs of operation for supplying both communities are no greater than would be required to serve Oakdale alone. The cost of labor and overhead is practically the same, and the additional cost of manufacturing the gas used in Riverbank is practically only the additional boiler fuel and extra materials used.

Applicant proposes the following schedule of increased gas rates:

	<u>Gross</u>	<u>Net</u>
First 300 Cu. Ft. or less per meter per Mo.	\$ 1.10	\$1.00
Next 2700 Cu. Ft. per Meter per Mo. Per M Cu.Ft.	2.10	2.00
Next 5000 Cu. Ft. per Meter per Mo. Per M Cu.Ft.	1.85	1.80
Next 7000 Cu. Ft. per Meter per Mo. Per M Cu.Ft.		1.50
All over 15,000 Cu. Ft. per Meter Per Mo. per M. Cu. Ft.		1.25

These rates are somewhat excessive for smaller consumers, and, after careful consideration of the evidence, we believe the rates set forth in the Order herein will prove more equitable than those proposed by applicant.

I submit the following form of Order:-

O R D E R

Oakdale Gas Company, having applied for authority to increase its gas rates, a hearing having been held, the matter submitted and ready for decision, the Railroad Commission of the State of California hereby finds as a fact that the gas rates now charged by Oakdale Gas Company are, under present conditions of

cost of operation, not just or reasonable rates, and further finds, as a fact, that the gas rates set forth herein are, under present conditions, just and reasonable rates for gas.

Basing its Order on 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 Oakdale Gas Company be, and is hereby authorized to charge and collect the following schedule of rates for gas, which rates shall be applicable to all regular meter readings taken on or after the 10th day of September, 1919, provided Oakdale Gas Company shall, within ten days of the date of this Order, file with the Railroad Commission the following schedule of rates:

GENERAL SERVICE

	<u>Gross</u>	<u>Net</u>
First 400 Cu. Ft. or less per Meter per Month	\$1.10	\$1.00
Next 2,600 Cu. Ft. per Meter per Mo. Per M. Cu.Ft.	2.10	2.00
Next 5,000 Cu. Ft. per Meter per Mo. Per M. Cu.Ft.	1.85	1.80
Next 7,000 Cu. Ft. per Meter per Mo. Per M. Cu.Ft.	1.50	1.50
All Over 15,000 Cu. Ft. per Meter per Mo. Per M. Cu. Ft.	1.25	1.25

The net rate shall apply if the bill is paid on or before the tenth of the month next succeeding that for which the bill is rendered. If the bill is not paid on or before the tenth, the gross rate shall apply.

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 30th day of August, 1919.

Edwin O. Edgerton

H. H. Portland

Frank P. Devlin

H. A. Brundage

During Martin

Commissioners: