

ORIGINAL

Decision No. 6973

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the matter of the application)
of the MODESTO GAS COMPANY, a cor-)
poration, asking the Railroad Com-) Application No. 4907.
mission to fix its rates charged)
for gas.)

Frank A. Cressey, Jr. for applicant.
A. J. Carlson, City Attorney, and
Geo. J. Ulrich, Mayor, for City of
Modesto.

BRUNDIGE, Commissioner.

O P I N I O N

Modesto Gas Company, alleging that it is forced to meet an ever increasing cost of manufacture and distribution of gas supplied to consumers, asks the Railroad Commission to so fix its rates and charges for gas that it may hereafter earn a reasonable return upon its invested capital. A hearing was held in Modesto on October 15, 1919 and the matter thereupon submitted.

Applicant is engaged in the manufacture and distribution of gas in the City of Modesto, County of Stanislaus, California, supplying in excess of 1500 consumers. Prior to August 26, 1918 its rates for gas were based on a rate of \$1.65 per thousand, gradually reducing to \$1.00 per thousand, with a discount of 10% for prompt payment and a minimum charge of \$1.00

per meter per month. Effective August 28, 1918, the Railroad Commission by Decision No. 5707, following a hearing in Application No. 3927, increased applicant's rates to a small degree to compensate it in part for increased costs of operation then in effect.

Applicant now reports to the Commission the results of its operations for the year ending July 31, 1919, which covers the first year's operations under the new rates. In this period applicant sold 50,060,100 cubic feet of gas to 1534 consumers, and the gross revenue from its business amounted to \$89,138. Its operating expenses reported for the same period, including a reasonable allowance for depreciation and for uncollectible accounts was \$78,681. The net income of \$10,459 thus resulting is but slightly in excess of 5% upon its investment in the properties devoted to its gas business.

Prior to July 31, 1918 applicant paid 80¢ per barrel for oil used in gas manufacture. Thereafter the price of oil increased to \$1.91 per barrel, and at the present time it is required to pay an average of \$1.97, which price, in all probability, will continue indefinitely in the future. All other costs of operation, including materials and labor, have reached a permanently higher level and on the basis of these increased costs of operation and a proper earning on its invested capital, a further increase in rates is now sought. The Commission has heretofore investigated the plant and properties of Modesto Gas Company and in connection with earlier proceedings on both its rates and finances, valuations have been made and the Commission has found that a reasonable value of properties as of June 30, 1918 was the

sum of \$185,334. Since that date applicant has expended, according to its books of account, approximately \$9000 in additions and betterments to its properties. To meet the future increase in its business, applicant has entered into a program of improvements to its generating and distribution facilities that calls for an expenditure of nearly \$90,000 within a period of one year. Aside from provision for mains, services, meters and current improvements, these expenditures cover a new holder of 300,000 cubic feet capacity, an additional gas generator and enlargements generally in its production facilities.

The securities to be issued for these improvements have been heretofore authorized by the Commission. By these expenditures Modesto Gas Company is providing facilities of a major character at this time that are sufficient to meet its anticipated growth for a period of at least five years in the future. The construction work contemplated is evidently in excess of the immediate requirements of the business and the expenditures in this connection represent a proportionally large increase in its capital accounts. Applicant's plans in this connection show foresight, and as a matter of economy the enlargements now to be installed should be of such size and character as to make provision for some extended period in the future. On the other hand, it would hardly appear proper to expect applicant's present consumers to pay in rates sufficient to carry an investment substantially in excess of that necessary to supply current demands. Upon analysis, it appears that \$75,000 of the proposed expenditures represents enlarged plant facilities that will not be fully utilized for a period of five years.

I therefore propose to include in applicant's rate base for the next year one-fifth of such expenditures as the proper amount chargeable against the capital to be devoted to its gas operations for the year 1920. Based on the foregoing and with the addition of reasonable amounts for working cash capital and materials and supplies, I find that the sum of \$230,000 represents a reasonable value of the gas properties of Modesto Gas Company and a proper basis for establishing its earnings and rates for the immediate future. I further find the sum of \$5100 is a reasonable allowance to be included in operating expenses annually for accruing depreciation.

Applicant's sales of gas for the year ending December 31, 1920, will, in all probability, increase to 60 million cubic feet and if its present rates and charges were to continue in effect a gross revenue of \$104,218 for the year would result. The operating expenses to supply this business, taking into account the present prices of oil and materials and the wages which are to be paid, including the above allowance for depreciation, taxes and uncollectible accounts, will total \$90,350, leaving a net revenue of \$13,868, which is 6.03% on the rate base hereinabove set forth.

Prior to 1918 applicant shows that under rates which were reasonable and under the then existing costs of operation, it could, as a result of efficient management, render gas service of a high standard and earn a return in excess of that generally accepted as reasonable for utilities of this character. In spite of the increased costs of operation and a diminishing return, applicant has in no way reduced the quality of its service and has

fully met its obligations to supply the growing demands of its territory. The Commission is in full accord with the policy thus evidenced and in the disposition of this proceeding I shall recommend that applicant be authorized such rates as will enable it to continue to give such service and to meet the requirements of its territory as it has done in the past. The rates as hereinafter established will, in my judgment, be sufficient to enable applicant to fully maintain its service and provide for the growth of its business, and constitute an average increase of less than 8% of the rates now in effect.

In addition to a rate for general service, applicant now offers a special rate for restaurant service which is substantially less than that paid by the major portion of its consumers. This rate is available, per se, only to consumers who use very large quantities of gas, and the minimum bill prescribed in this schedule is such that a consumer must use at least 10 times as much gas as the average domestic patron. Under these conditions it can hardly be said that there is discrimination as between this schedule and the general schedule. In increasing applicant's rates I have, however, increased the restaurant service schedule in a somewhat greater proportion than the general schedule, inasmuch as the present increased costs of operation affect the gas sold under this schedule to a greater extent than would be covered by the same proportional increase as holds for the general schedule.

The gross annual revenue to be derived at rates hereinafter established, on the basis of the sales for the year 1920

will be the sum of \$109,022. From this should be deducted operating expenses, taxes and depreciation, aggregating \$90,740. The net income of \$18,282 from these rates produces a return of 7.95% on \$230,000, which figure I have heretofore adopted as a reasonable rate base for the period under consideration. I recommend the following form of order:

O R D E R

MODESTO GAS COMPANY having applied to the Railroad Commission for authority to increase its rates for gas, a hearing having been held and the matter submitted and now ready for decision, the Railroad Commission of the State of California hereby finds as a fact that the present rates and charges for gas of Modesto Gas Company are not fair and reasonable rates, insofar as they do not adequately compensate it to the extent of earning proper operating expenses and a fair return upon the reasonable valuation of the properties of Modesto Gas Company, and insofar as they differ from the rates and charges hereinafter established.

Based 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 Modesto Gas Company be and it is hereby authorized to charge and collect for gas effective for all regular meter readings taken on and after the 20th day of December, 1919, the following rates and charges, to-wit:

GENERAL SERVICE

		<u>Gross</u>	<u>Net</u>
First	500 cu.-ft. or less per meter per month	\$1.10	\$1.00
Next	2500 cu.-ft. per meter per mo.	1.85	1.75 per M.cu.-ft.
Next	6000 " " " " " "	--	1.60 " " " "
Next	6000 " " " " " "	--	1.40 " " " "
All over	15000 " " " " " "	--	1.20 " " " "

The net rate is effective if the bill is paid at the office of the company on or before the 10th of the month next succeeding that for which the bill is rendered, otherwise the gross rate is effective.

RESTAURANT SERVICE

First	30,000 cu.-ft. per meter per mo.	\$1.10	per M. cu. ft.
All over	30,000 " " " " " "	1.00	" " " "

Minimum bill \$30.00 per meter per month.

PROVIDED Modesto Gas Company shall within ten days of the date of this order file with the Railroad Commission the schedules of rates herein established.

The foregoing opinion and order is 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 19th
day of December, 1919.

Edwin O. Edgerton
H. S. Ireland
Frank R. Brown
H. T. B. ...
Charles W. ...
 Commissioners.