

Decision No. 7135,

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of)
SANTA MARIA GAS AND POWER COMPANY, a)
corporation, for a revision of its)
schedule of rates charged for surplus) Application No. 4840.
gas furnished to users thereof for)
fuel under boilers for generation of)
steam.)

Chickering & Gregory, by Evan Williams,
for Applicant.
F. J. Feeney, for Santa Maria Steam
Laundry and Sanitary Laundry.

BY THE COMMISSION:

O P I N I O N

Santa Maria Gas and Power Company seeks authority to increase its rates now charged for surplus natural gas supplied under its Schedule No. 6, C.R.C. Sheet No. 29-G, under which natural gas is sold for use as fuel under steam boilers.

A public hearing was held in the matter by Examiner Westover at Santa Maria. All of the consumers supplied with surplus gas and affected by this proceeding were duly notified of the hearing and only two of them appeared. These, however, offered no evidence and did not object to the proposal to increase rates.

Applicant purchases natural gas in the Santa Maria oil fields and transports and distributes it in Santa Maria, San Luis Obispo and other communities in that vicinity for domestic, commercial and industrial purposes. It has about

2700 consumers, of whom 25 use gas for fuel under boilers at a rate of from 20¢ to 15¢ per thousand cubic feet. This application is directed to the insufficiency of the rates under which these 25 consumers are supplied with surplus gas for boiler fuel. The service in question is in no sense guaranteed by the utility, it being provided in the present schedule of rates that the consumers thus supplied may be required on telephone notice to cease the use of gas when their service interferes with service to domestic consumers. Gas so supplied is referred to by applicant as "surplus gas."

Applicant's presentation is covered fully in fourteen exhibits, setting forth in detail its investment in operative property, its revenues, operating expenses, sales and segregations of all of these items between its regular gas service and its surplus gas service. In many instances applicant has resorted to a segregation of certain items of capital and operating expenses on a pro-rata of sales of gas in order to effect an apportionment of its costs to the service of surplus gas herein considered. While in the main these apportionments appear justified, we have nevertheless modified applicant's basis in several respects which in our judgment more clearly reflect the incidental character of its surplus gas service, and set forth in the following table a reasonable apportionment of capital, revenue and operating expenses for the year 1918 as between the regular and surplus gas services:

TABLE I
 SANTA MARIA GAS & POWER COMPANY
 GAS OPERATIONS - 1918

	<u>Regular Gas Service</u>	<u>Surplus Gas Service</u>	<u>Total</u>
Sales of gas M.cu.ft.	104,549	39,303	143,852
Capital	\$406,359	\$60,076	\$466,435
Revenue	\$ 82,512	\$ 6,631	\$ 89,143
Operating Expenses:			
Gas Purchased	8,655	3,249	11,904
Gas Pumping	4,046	1,520	5,566
Other Transmission Exp.	2,995	748	3,743
Other Distribution Exp.	13,232	485	13,717
General & Miscellaneous	20,506	629	21,135
Taxes	6,078	487	6,565
Uncollectible Accounts	676	54	730
Depreciation	16,060	2,720	18,780
Total Expenses	<u>72,248</u>	<u>9,892</u>	<u>82,140</u>
Net Income	10,264	*3,261	7,003
Rate of Return on Capital	2.52%	---	1.50%

* Deficit.

The items of capital shown in Table I above are based upon appraisals heretofore approved by the Commission, with such additions and betterments as are recorded in applicant's books of account. It will be noted that applicant's business as a whole is in no sense remunerative. The comparatively low margin of profit which it obtains is due not only to the deficit incurred in the sale of surplus gas, but also to the inordinately high expense incurred in its regular gas service.

This proceeding is limited to a consideration of that portion of applicant's business involved in the sale of surplus gas for fuel purposes, and in using the expenses incidental thereto as set forth in Table I above as measure of the cost of such service, we do not in any sense pass upon the propriety of the other expenses of applicant attaching to its regular gas service, which reflect to a large degree the additional costs incurred in maintaining itself against competition.

As indicative of the value of the particular service herein considered, applicant submits that fuel oil, which is the only direct substitute, commands a price in San Luis Obispo of \$2.20 per barrel in tank wagon lots of from 10 to 20 barrels delivered to consumer's tanks. On the basis of an equivalent

of 5000 cubic feet of the gas supplied, which is of a quality approximating 1100 British thermal units per cubic foot, this price for fuel oil is equivalent to a price of 44¢ per thousand cubic feet for gas. This is of importance only as a measure of the upper limit of the value of applicant's gas service, provided it could guarantee to the users thereof a continuous supply of fuel such as would result from the substitution of fuel oil.

From a review of the conditions under which this service is supplied, it appears that a graduated rate of from 30¢ to 25¢ per M. cu. ft. constitutes a reasonable scale of charges for surplus natural gas sold by applicant. Its adoption would increase the average rate for this service from 16.9¢ per M. to 23.3¢ per M., although the increased revenue resulting will not provide sufficient to remove the deficit incurred by this portion of applicant's business. The proposed rate will, however, provide sufficient revenue to reimburse applicant for all of its direct expenses, incidental to surplus gas service, and about two-thirds of the depreciation allowance but no provision for any return upon the capital chargeable to this service. Some improvement in the earnings of applicant's business as a whole will follow, but, even under these conditions, only a moderate return will obtain, if its abnormal expenses due to competition are to be continued.

O R D E R

Santa Maria Gas and Power Company having applied to the Railroad Commission for a revision of its rates and charges for surplus gas supplied for use as fuel under boilers, a hearing

having been held, the Railroad Commission of the State of California hereby finds as a fact that the rates now charged for said service are not fair or reasonable rates, and that the rates hereinafter established are, under present conditions, reasonable rates. Based upon the foregoing findings of fact and the other findings of fact contained in the Opinion which precedes this Order.

IT IS HEREBY ORDERED that Santa Maria Gas and Power Company be, and it is hereby authorized to charge and collect for natural gas supplied for use as fuel under boilers, the following schedule of rates, under the terms and conditions set forth herein:

SPECIAL BOILER RATE FOR SURPLUS GAS

Applicable to Service of Gas
for Fuel under Boilers for
Generation of Steam in all
Territory Served.

RATE: Based on monthly consumption per meter.

First 100,000 cu.ft. 30¢ per M. cu.ft.
All Over 100,000 " " 25¢ " " " "

MINIMUM CHARGE: \$15.00 per month.

TERMS AND CONDITIONS

The gas supplied under this schedule is surplus gas only, and the service may be discontinued at the option of the company on reasonable notice. Consumers supplied under this rate may be required to discontinue service upon telephonic notice from the company. The company will not be responsible for any injury or damage to property or persons resulting from improper handling of gas by the consumer, and service is accepted under these specific conditions.

The rate herein established shall be effective for all regular meter readings taken on and after the 15th day of January, 1920

PROVIDED, SANTA MARIA GAS AND POWER COMPANY shall, within ten days of the date of this order, file with the Railroad Commission of the State of California, the schedule of rates herein established, withdrawing and cancelling its revised sheet C.R.C. No. 29-G, heretofore in effect.

Dated at San Francisco, California, this 17th day of January, 1920.

Elin O. Edgerton
H. Howard
H. A. Brundage
Irving Martin
Commissioners.