

DECISION NO. 7161

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application
of COAST VALLEYS GAS AND ELECTRIC
COMPANY, a corporation, for an order
increasing its gas rates.)

) Application No. 5023.

H. F. Jackson, for Applicant
James E. Campbell, for City of
Monterey.
H. G. Jorgensen, for City of
Pacific Grove.
J. H. Andresen and G. A. Dougherty,
for City of Salinas.

DEVLIN, Commissioner.

O P I N I O N

This is an application of Coast Valleys Gas and Electric Company for authority to increase its rates and charges for gas service in Salinas, Pacific Grove, Monterey and contiguous territory. A hearing was held in Monterey on December 2, 1919, at which time it appeared proper that decision be withheld pending a further investigation of service conditions. Such being completed, the matter is now ready for decision.

Coast Valleys Gas & Electric Company, hereinafter referred to as applicant, is engaged in the transmission and distribution of electricity in the Salinas Valley, and in the generation and distribution of gas in the Cities of Salinas, Pacific Grove, Monterey and suburban districts adjacent thereto. It also supplies water service in Salinas and King City. The present proceeding, however, is confined to its rates for gas service.

From a manufacturing plant located at Salinas, gas is distributed to that community through a low pressure distribution

system. The Cities of Pacific Grove and Monterey are supplied from a separate generating plant located at Monterey with a high pressure transmission line and local low pressure distributing systems.

The following table, based upon operations for the year ending September 30, 1919, shows the extent of applicant's operations in the two divisions of its gas business.

	Salinas	Monterey and Pacific Grove	Total
Consumers	781	1,649	2,430
Gas sold, cu.ft.	15,095,800	35,914,500	51,010,300
Gross Revenue	\$25,621.00	\$56,387.00	\$82,008.00
Oil Used, Bbls.	5,312	11,267	16,579

Authority to increase its gas rates is sought to reimburse applicant for increases in its operating expenses, due principally to additional costs of production and distribution on account of the increased cost of oil, labor and materials used in its operations and for some greater expense occasioned by its compliance with General Order No. 58 of this Commission, establishing a thermal standard of 570 B.T.U. per cubic foot for gas. It is alleged by Coast Valleys Gas and Electric Company that its present rates are not sufficient to give it a fair return upon its investment in gas properties used and useful in connection with the service rendered to its consumers.

The rates now charged by Coast Valleys Gas and Electric Company for gas were established by this Commission's Decision No. 4847 in Application No. 1876, "In the Matter of the Application of the Coast Valleys Gas and Electric Company for a determination of its gas, electric and water rates" (Volume 14, Opinions and Orders of the Railroad Commission of the State of California, page 460.) These rates have been in effect since November 16,

1917, since which time applicant has been required to bear constantly increasing costs of all materials and an ascending scale of wages in its operations, without seeking relief in the form of higher rates.

In Decision No. 4847 supra, the Commission found that a fair value of the properties used and useful in the service of gas to applicant's consumers was the sum of \$196,811.69 as of June 30, 1917, since which date additions and betterments have been made to these properties as follows:

From July 1, 1917 to September 30, 1917	\$1,700.75
For the year ending September 30, 1918	4,109.77
For the year ending September 30, 1919	8,803.95

To meet the growth of its business it estimates additions of \$10,100.00 for the year ending September 30, 1920. All of the above figures being based upon applicant's actual investment in these properties and the aggregate thereof representing a reasonable basis for the establishment of rates, I shall adopt, for the purpose of this proceeding, the sum of \$245,000. as a rate base. This sum includes, in addition to the value of the physical properties used in the production and distribution of gas, a pro rata of applicant's general capital and allowance for material and supplies and working cash capital.

A review of applicant's revenue and expenses for the years ending September 30, 1917, 1918 and 1919 shows the declining effect upon net income of the increase in expenses without an attendant increase in revenue. For the year ending September 30, 1920, it appears that a reasonable estimate of applicant's revenue from the sale of gas under its present rates will be \$94,500.00, and that the expenses to be incurred in this service are as follows:

Production Expense	\$56,535
Distribution Expense	6,135
Commercial Expense	6,600
General Expense	5,025
Taxes	5,900
Uncollectible Accounts	<u>175</u>

Total Direct Operating Expenses \$80,370

These expenses are based upon a total sale of 58,283,500 cubic feet of gas to 2670 consumers, using 19,670 barrels of oil in gas manufacture, together with a consideration of the actual costs of material and wages now in effect.

In addition to the above direct operating expenses applicant's income should be sufficient to permit it to set aside a proper depreciation annuity upon its properties. Adopting the same basis as that used in Decision No. 4847 supra, I find that a reasonable depreciation annuity for these properties at the present time is \$7,100.00 per annum. From the above basis with a continuation of the rates now in effect applicant will receive from its gas operation a net of \$7,030 and thus earn a return of only 2.87 per cent from its investment of \$245,000 shown above.

As this Commission has indicated from time to time, the ability to earn a satisfactory return by a utility is predicated upon its giving satisfactory service to the public. In the present instance numerous protests have disclosed unsatisfactory service conditions, particularly in applicant's Salinas territory, although complaints of a minor character have arisen in Monterey and Pacific Grove. As a result of the complaints arising in Salinas, the Commission ordered that a special investigation be made as to the quality of gas, as to pressure and other matters affecting gas service in that locality. A conference was held in Salinas on December 18, 1919, at which time the entire matter was discussed and specific recommendations were made by the Commission's engineering department as to the investigation and correction of

the existing difficulties. It appears that most of the complaints were occasioned by insufficient pressure, inadequate house piping and stopages, although a few were directed to the heating content of the gas. The latter have not been sustained and it is my belief that Coast Valleys Gas and Electric Company is now supplying gas of standard heating value and purity from both of its plants. On December 27, 1919 applicant employed a special service man to canvass the Salinas territory and adjust whatever conditions were found to be the source of complaints. Reports have been made to the Railroad Commission from time to time showing that a large number of these complaints have been satisfactorily adjusted and that continued progress along these lines is being made.

Investigation by the Commission's engineers indicates a lack of sufficient equipment at the Monterey gas plant to provide and to insure the consumer with continuous service. The inadequacy of existing facilities has fortunately not resulted in any interruption in service, but, nevertheless, steps should be taken to provide such additional equipment as will remove any possibility of a break-down. The Commission has, however, been assured that definite plans have been approved for the replacement of inadequate equipment now in use in Monterey; and that substantial plant and service betterments are to be installed wherever needed throughout the entire territory served.

It will be recalled that it was announced at the hearing in Monterey in this proceeding that the starting point in any rate case is based upon good service, and that before anything could be done with the rate the service should be first made satisfactory. From the subsequent investigation conducted by our engineering department and from the attitude of applicant herein in removing existing complaints in Salinas and elsewhere, and from the very definite assurance

which it has made to the Commission, pledging substantial expenditures for additional equipment and service improvements, I am satisfied that every reasonable effort will be made to establish service conditions which will occasion a minimum of complaint. With these facts in mind and fully recognizing the inadequate character of the present rates now charged for gas by Coast Valleys Gas and Electric Company, I shall recommend that the Commission authorize an increase in its gas rates, and approve the rates set forth in the order herein. The rates hereinafter established will return to applicant after the deduction of proper operating expenses and depreciation a return of nearly $7\frac{1}{2}$ per cent upon its investment.

I submit the following form of order:

O R D E R

Coast Valleys Gas and Electric Company having applied for authority to increase its rates and charges for gas, a public hearing having been held, the matter being submitted and now awaiting decision, the Railroad Commission of the State of California hereby finds as a fact that the present rates and charges of the Coast Valleys Gas and Electric Company for gas service, are not, under present conditions, just, fair or reasonable rates, and that the rates and charges herein established are just and reasonable rates for gas to be supplied in the territory served by Coast Valleys Gas and Electric Company.

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

IT IS HEREBY ORDERED that Coast Valleys Gas and Electric Company be, and it is hereby authorized to charge and collect for gas sold in the localities set forth in the respective schedules, the following rates and charges for gas of a quality of 570 B.T.U. per cubic foot.

SCHEDULE "A"

Monterey and Pacific Grove

Character of Service

This rate covers all service furnished to all classes of consumers in the corporate limits of Monterey and Pacific Grove and adjoining territory where served.

GAS RATES

First 500 cubic feet or less per month,	\$1.00						
Next 2000 " " per month,	\$1.75	per 1000 cubic feet					
" 2500 " " " "	1.50	" "	" "	" "	" "	" "	" "
" 5000 " " " "	1.30	" "	" "	" "	" "	" "	" "
" 5000 " " " "	1.10	" "	" "	" "	" "	" "	" "
All over 15000 cu.ft.	1.00	" "	" "	" "	" "	" "	" "

SCHEDULE "B"

Salinas

Character of Service

This rate covers all service furnished to all classes of consumers within the City of Salinas and in adjoining territory where served.

First 500 cubic feet or less per month,	\$1.00						
Next 2000 " " per month,	\$1.90	per 1000 cubic feet					
" 2500 " " " "	1.75	" "	" "	" "	" "	" "	" "
" 5000 " " " "	1.50	" "	" "	" "	" "	" "	" "
" 5000 " " " "	1.30	" "	" "	" "	" "	" "	" "
All over 15000 cu.ft.	1.10	" "	" "	" "	" "	" "	" "

which rates shall be effective for all regular meter readings taken on and after the 25th day of February, 1920.

PROVIDED, Coast Valleys Gas and Electric 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 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 20th
day of February, 1920.

Edwin O. Edgerton
H. B. Loveland
Frank R. Doherty
James M. Martin
Commissioners.