

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of )  
SOUTHERN COUNTIES GAS COMPANY OF )  
CALIFORNIA for authority to increase )  
its rates for artificial gas supplied ) Application No. 5234.  
to the City of Santa Barbara and the )  
unincorporated communities in the )  
County of Santa Barbara. )

LeRoy M. Edwards, for Southern  
Counties Gas Company.

W. P. Butcher, for City of Santa  
Barbara.

H. A. Adrian, for Tax Payers'  
Protective League.

BRUNDICE, Commissioner:

OPINION

In this application the Southern Counties Gas Company asks permission to increase its rates for artificial gas served to its consumers in the City of Santa Barbara and adjacent unincorporated territory. It points out that the existing city rate of \$1.00 per thousand cubic feet is too low, and that during the nine months of March 1st to December 1st 1919, the company suffered a net loss of \$2,469.72 without any allowance for interest or depreciation.

These properties were purchased by the applicant from the Santa Barbara Gas and Electric Company in

May, 1919, and at the time of the hearing of Application No. 4440 in that matter, the Southern Counties Gas Company expressed the hope of procuring an adequate supply of natural gas for its Santa Barbara division, in which event it felt that it would not be necessary to ask for any increase in rates. Investigation has been made of all local gas fields and of undeveloped territory suggested by protestants, but so far the company has not succeeded in obtaining any reliable supply of natural gas in adequate amounts, nor does it appear probable that such a supply will be developed in the near future.

The historical cost new of the Santa Barbara gas properties was reported by Mr. A. R. Kolly, Valuation Engineer for applicant, as \$569,662.00 as of March 1, 1919. The Commission's engineers made an estimate of the historical cost new, and are in agreement with the figure above stated.

Applicant sets forth in its exhibits the above sum as the historical cost of the property as of that date, and in computing the rate base for 1920 has added to the above amount the net additions and betterments to July 1, 1920, together with working cash capital and material and supplies. The presentation of applicant along the above lines, modified for certain corrections due to inclusion of expenditures not correctly chargeable to additions and betterments to operate property, together with an estimate of the depreciation annuity upon the 6% sinking fund basis, is summarized as follows:

SOUTHERN COUNTIES GAS COMPANY

Santa Barbara Division

SUMMARY OF HISTORICAL COST AND DEPRECIATION ANNUITY

1 9 2 0

	<u>Historical Cost</u> <u>New</u>	<u>Depr. Annuity</u> <u>6% S.F. Basis</u>
Organization and Franchise	\$ 670.00	
Land	7,385.77	
Production	265,973.20	\$ 4,666.21
Transmission	6,570.16	178.57
Distribution	386,889.38	12,137.00
General	12,255.07	731.75
Working Cash Capital, Material and Supplies	<u>43,517.00</u>	
Total Rate Base . . .	\$723,313.56	\$17,713.59

Since the Santa Barbara Gas properties have been taken over by applicant it has expended a considerable sum of money in maintenance and repairs to the system and has materially improved its condition and service. During the period of its operation, due to these increased costs and higher cost of operation, applicant has not earned sufficient to pay operating expenses, let alone setting aside any amount for depreciation or the payment of interest upon the bonds sold to purchase the property.

In view of the evidence in this proceeding, I conclude that a reasonable basis for computing rates at this time would be to use the sum of \$569,662.00 plus additions and betterments to June 30, 1920, plus working cash capital and material and supplies, a total sum of \$723,313.00.

An analysis of the operations of applicant for the last six months of 1919 shows that applicant failed to earn sufficient for operating expenses and depreciation during that period. Rates for gas in other communities comparable with Santa Barbara have been higher than \$1.00 per thousand

cubic feet, the rate now existing within the city, it being found by this Commission absolutely necessary that a higher rate be charged in order that the utilities could earn a fair return upon the money invested in the property.

The following estimate of the operating expenses for 1920 was prepared from the evidence herein upon the basis of the cost of oil and labor in effect at the time of hearing:

ESTIMATED OPERATING COST

Santa Barbara Division

SOUTHERN COUNTIES GAS COMPANY

1 9 2 0

Production.....	\$134,356
Transmission.....	1,946
Distribution.....	20,000
Commercial.....	19,950
General.....	12,549
Taxes.....	17,745
Uncollectible Bills.....	<u>1,023</u>
Total, .....	\$207,569

It is estimated that applicant will have an average of 5,080 consumers during 1920 and that the requirements of these consumers will total 207,050,000 cubic feet of gas. At present rates applicant would receive an average of approximately \$1.03 per thousand cubic feet, and, therefore it appears that without an increase in rate applicant would earn only operating expenses with nothing for interest and depreciation. It is very apparent, therefore, that applicant is entitled to an increase in rates. It cannot be expected to continue to operate without receiving a fair compensation for its service.

Since the submission of this application the price of crude oil, used by applicant in the manufacture of gas,

has been increased 25¢ per barrel, this increase to become effective as far as applicant is concerned on June 1st, at the expiration of its contract. This increase in the price of oil, of 25¢ per barrel, causes an increase in the cost of gas delivered to the consumers of 7¢ per thousand cubic feet and it will, therefore, appear necessary to increase the rates sufficient to absorb this further increase in cost. The total increase in cost of oil alone since 1916 has been from \$ 0.825 per barrel to \$2.22, representing an increase in cost per 1000 cubic feet of gas sold of 37¢, which, if added to the present rate, would make \$1.42.

The following sets forth the total cost of service for the year 1920, including the increased cost of oil of 25¢ per barrel for 12 months:

Total Gas sales.....	207,050 M cu. ft.
Operating Expense.....	\$207,569
Increased cost of oil.....	14,500
Depr. Annuity and Int on	
Accrued Depreciation.....	21,314
Return for Int. & Dividends.....	<u>54,265</u>
Total,.....	\$297,969
Average Rate.....	\$1.44 per 1,000 cu. ft.

In allowing the increased cost of oil for the period commencing with the effective date of these rates I am mindful of the fact that applicant has earned nothing but operating expenses in Santa Barbara for the last 12 months, and, further that in general increases in rates, by necessity, will lag behind increased cost of operation and it may be possible that a further increase in cost of production will result.

Applicant has in the past had in effect a different schedule of rates in the territory outside the City of Santa

Barbara as compared with the rate in the City, the rate formerly in effect in the City being \$1.00 per thousand cubic feet with a minimum of \$1.00, and that applicable outside the City of Santa Barbara being \$1.25 per thousand for the first 10,000 cubic feet; \$1.15 per thousand for the next 20,000 cubic feet, and \$1.10 for all over 30,000 cubic feet. The main portion of the unincorporated territory served by applicant is in a more or less scattered district, in which the cost of service is considerably greater than within the city limits of Santa Barbara.

Applicant has urged that the same rate be charged in the entire district. It does not appear that this request should be granted as it will put an additional burden upon the city communities to stand the additional cost of serving the more scattered territory. The rates herein proposed will maintain the general differential previously charged and are fixed with a view to returning to applicant a return, in addition to operating expenses and depreciation, of approximately 8% upon the sum heretofore found as <sup>a</sup> correct rate base.

I recommend the following form of Order:

#### O R D E R

Southern Counties Gas Company having applied for an order establishing the rates to be charged by it for service of artificial gas to its consumers in the City of Santa Barbara and the adjacent unincorporated territory, public hearing having been held and the matter being submitted and ready for decision,

The Railroad Commission of the State of California hereby finds as a fact that the existing rates of Southern

Counties Gas Company for gas service in Santa Barbara and vicinity are unjust and unreasonable and that the rates herein established are just and reasonable.

Basing its order on the foregoing finding of fact and the other findings of fact as set forth in the Opinion preceding this order,

IT IS HEREBY ORDERED that Southern Counties Gas Company be and the same is hereby authorized to charge and collect for gas served by it in Santa Barbara County the following rates, based upon all meter readings taken on and after the 27th day of April, 1920:

#### SCHEDULE NO. 1

##### GENERAL SERVICE

Applicable to domestic and commercial service for lighting, heating and cooking, including restaurants, apartment houses, hotels, etc.,

##### TERRITORY:

Applicable to within the incorporated limits of the City of Santa Barbara.

##### RATE:

First	700 cu.-ft.	per meter	per mo.	\$1.00
Next	4,300 "	" "	" "	1.40 per M Cu.-ft.
"	15,000 "	" "	" "	1.35 " " " "
"	30,000 "	" "	" "	1.30 " " " "
All over	50,000 "	" "	" "	1.25 " " " "

#### SCHEDULE NO. 2

##### GENERAL SERVICE

Applicable to domestic and commercial service for lighting, cooking and heating, including restaurants, apartment houses, hotels, etc.

TERRITORY:

Applicable to that portion of Santa Barbara County  
outside the incorporated limits of the City of Santa  
Barbara served by Southern Counties Gas Company.

RATE

First	600	cu.ft.	per	meter	per	mo.	.	\$1.00
Next	4,400	"	"	"	"	"	.	1.65 per M cu.ft.
"	15,000	"	"	"	"	"	.	1.50 " " " "
"	30,000	"	"	"	"	"	.	1.45 " " " "
All over	50,000	"	"	"	"	"	.	1.35 " " " "

IT IS HEREBY FURTHER ORDERED that Southern Counties  
Gas Company be and the same is hereby directed to set aside  
for depreciation, commencing with the month of May, 1920, the  
amount set forth in the Opinion herein and such increasing  
amounts from time to time as should be set aside on the basis  
herein set forth.

IT IS HEREBY FURTHER ORDERED, that Southern Counties  
Gas Company shall file, on or before April 30, 1920, the  
schedules herein authorized.

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 26<sup>th</sup> day of  
April, 1920.

H. D. Longland  
Wm. H. Brown  
H. B. Brundage  
Commissioners.