

Decision No. 7581

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of )  
MODESTO GAS COMPANY, a corporation, )  
asking the Railroad Commission of the ) Application No. 5513.  
State of California to fix its rates )  
charged for gas. )

Frank A. Cressey, Jr., for Applicant.

S. W. Elliott, for protesting consumers.

BRUNDIGE, Commissioner.

O P I N I O N

Modesto Gas Company alleges that it is obliged to meet greatly increased costs for oil and labor required for the manufacture and distribution of gas supplied to its consumers; that the increase of rates recently granted it by Decision No. 6973 in December 1919 was immediately absorbed, due to a necessary increase in the number of its employees and the amount of their wages; that the City of Modesto is experiencing a very rapid growth which requires substantial extension to its system for which funds can not be raised on the present basis of earnings. Applicant therefore asks that the Railroad Commission 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 April 29, 1920, 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 about 1720 consumers. Its sales for the year 1919 amounted to 55,992,000 cubic feet. The operating expenses totaled \$75,355, with a revenue from gas sales of \$82,810, leaving a balance of \$7,455, or 3.1% upon its investment. The present rates are shown by the following schedule:

First	500	cu.ft.	per	meter	per	mo.	or	less	\$1.00	net
Next	2500	"	"	"	"	"	"	"	1.75	per M cu.ft.
Next	6000	"	"	"	"	"	"	"	1.60	" " " "
Next	6000	"	"	"	"	"	"	"	1.40	" " " "
All over	15000	"	"	"	"	"	"	"	1.20	" " " "

Modesto Gas Company has a contract for the purchase of oil terminating January 20, 1921, providing for delivery of 1250 barrels per month at a price of \$2.00 per barrel at Modesto. This amount of oil will not be sufficient to meet the estimated requirements for the present year and it is expected it will be necessary to purchase 2125 barrels at market price which will result in an average oil cost of \$2.04 per barrel.

The payroll of the company has increased very materially during the past year. Because of the growth of the system it has been necessary to increase the number of employees, and also to grant material advances in their wages. The salary increases which have already been put in effect have added over \$7150 per annum to operating expenses.

The following statistics summarize briefly the operations of Modesto Gas Company for 1919 with an estimate for 1920:

	1919	Estimated 1920
Consumers, Dec. 31 . . . . .	<u>1720</u>	<u>1955</u>
Gas Sales M cu.ft. . . . .	55,992	63,865
Cost of oil required . . . . .	\$30,246	\$34,780
Revenue from gas sales . . . . .	\$82,810	\$114,655
Operating Expenses . . . . .	75,355	92,105
Net Return . . . . .	<u>\$ 7,455</u>	<u>\$ 22,550</u>

In Decision No. 6973 the Commission found that \$185,334 represented a just and reasonable value of Modesto Gas Company's properties as of June 30, 1918. During the past year applicant has been engaged in the construction of improvements to its generating and distributing equipment, and an exhibit filed herein sets forth the revised cost of these additions as \$84,532.85. In the last decision it was pointed out that these enlarged plant facilities were in excess of the immediate requirements of the business, and accordingly only one-fifth the amount of such expenditures was included in the rate base. Since the date of our previous decision the City of Modesto has shown a growth far in excess of our anticipation, and applicant's business now requires the use of a larger proportion of the above improvements. I have therefore included in applicant's rate base an amount equal to one-half the cost of the new equipment as is shown in the following tabulation:

C.R.C. Valuation as of June 30, 1918 . . . . .	\$185,334.00
Additions and Betterments, June 30, 1918 to September 1, 1919 . . . . .	8,686.00
Additions and Betterments, Sept. 1, 1919 to January 1, 1920 . . . . .	14,745.00
Valuation as of Jan. 1, 1920 . . . . .	<u>\$208,765.00</u>
Additions Plant one-half of \$84,532.85 . . . . .	42,266.42
Additions and Betterments, Jan. 1 to April 1, 1920 . . . . .	2,677.00
Work in progress . . . . .	<u>11,500.00</u>
Total . . . . .	\$265,208.42
Working cash capital and materials and supplies . . . . .	<u>16,750.00</u>
Rate Base, 1920 . . . . .	\$281,958.42

The total estimated cost of service for the year 1920 is presented in the following tabulation:

Production Expense

Oil . . . . .	\$34,780	
Other Expenses . . . . .	<u>20,033</u>	
Total Production . . . . .		\$54,813
Distribution . . . . .		10,615
Commercial Expense . . . . .		4,660
General Expense . . . . .		7,320
Taxes . . . . .		8,530
Uncollectible Bills . . . . .		<u>400</u>
Total . . . . .		\$86,338

Fixed Charges:

Depreciation . . . . .	\$ 5,767	
Return on Rate Base . . . . .	<u>22,550</u>	<u>28,317</u>
Total Cost of Service . . . . .		\$114,655

Gas Sales M. cu. ft. . . . .	63,000
Average cost of gas per M cu. ft. sold . . . . .	\$1.82

The rates hereinafter established should be sufficient to enable applicant to provide for the growth of its business, to continue adequate service, and to realize a just and reasonable return upon its investment. I therefore recommend the following form of Order:

ORDER

Modesto Gas Company having applied to the Railroad Commission for authority to increase its rates for gas, a public hearing having been held and the matter submitted and now being 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, in so far as they do not adequately compensate it to the extent of earning proper operating expenses and a fair return upon the reasonable valuation of its properties, and in so far as they differ from the rates and charges hereinafter established.

Based on 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 Modesto Gas Company be and is hereby authorized to charge and collect for gas the following rates, which rates shall be effective for all regular meter readings taken on and after the 20th day of May, 1920, to-wit:

							Gross	Net
First	500	cu.ft.	per	meter	per	month	\$1.35	\$1.25
Next	2500	"	"	"	"	"	2.00	1.90 per M
								cu.ft.
Next	6000	"	"	"	"	"		1.70 " "
Next	6000	"	"	"	"	"		1.50 " "
All over	15000	"	"	"	"	"		1.30 " "

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

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 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 17<sup>th</sup> day of May, 1920.

Edwin O. Fitzgerald  
H. D. Taylor  
Frank Martin  
H. P. Brundage  
Dwight Martin  
 Commissioners.