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ORIGINAL

Decision No. 7745

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

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In the Matter of the Application of
RIVERBEND GAS AND WATER COMPANY for
an order authorizing an increase in
gas rates. }

Application No. 3552
Third Supplemental
Application.

Chaffee E. Hall, for Applicant.

BRUNDIGE, Commissioner:

O P I N I O N

In this third supplemental application Riverbend Gas and Water Company alleges that notwithstanding the increase of gas rates last granted it by Decision No. 6500, dated July 16th, 1919, it has continued to operate with a deficit, and that the amount of this deficit will materially increase during the year 1920, due principally to recent increases in the cost of oil and labor. Applicant asks that the Railroad Commission fix such rates and charges for gas as shall permit applicant to pay operating expenses, to set aside proper amount for depreciation and to earn a reasonable return upon its investment.

A hearing was held in Reedley on May 19th, 1920 and the matter thereupon submitted.

Applicant is engaged in supplying artificial gas to about 1460 consumers in the towns of Dinuba, Reedley, Kingsburg and Parlier through a high pressure transmission system from a central generating plant at Dinuba. During the year 1919 gas sales amounted to 42,459,100 cubic feet, from which a gross revenue of \$65,840.48, or \$1.55 per M cubic feet, was derived. Operating expenses totaled \$71,190.43, or \$1.675 per M cu.ft., showing a deficit of \$5,349.95, which amounts to \$0.126 per M cubic feet.

The present rates, established by Decision No. 6500, are as follows:

First	500 cu.ft. or less per meter per mo. . . .	\$1.10
Next	3,500 cu.ft. per meter per month	1.80
"	6,000 " " " " " "	1.60
"	15,000 " " " " " "	1.40
All over	25,000 " " " " " "	1.20

During the year 1919 Riverbend Gas and Water Company purchased 16,265 barrels of oil at an average cost of \$1.996 per barrel and used 16.09 gallons per thousand cubic feet of gas sold. This shows a material improvement in operation over the preceding year, but not as high a duty as is believed reasonably possible. Operations for the first four months of this year indicate the duty of oil has fallen to 18.2 gallons per thousand cubic feet sold. This inefficiency is all the more serious in view of the fact that much of the work of gas compression which has formerly been done with steam engines has for some time been taken care of by a newly installed gas engine driven compressor, thereby reducing the amount of oil required for boiler use. Other inefficiencies exist due largely to lack of proper maintenance of the plant, and additional help is employed notwith-

standing the fact that there has been no material increase in business. As now maintained and operated, applicant's plant is hazardous and in constant danger of loss from fire. This Commission has previously recommended the installation of new equipment, and its engineers have spent considerable effort in endeavoring to assist the management in bettering conditions. However, it is apparent that proper steps have not been taken to carry out the advice of this Commission, with the result that service conditions, especially in Kingsburg, have become very unsatisfactory. Due in part to absence of proper gas scrubbing equipment, applicant has failed to produce gas of the standard heating value required.

During the year 1919 applicant purchased oil at \$1.35 and \$1.60 per barrel, f.o.b. Coalinga, but has since entered into a purchasing agreement for delivery of such oil as it shall require at \$1.70 per barrel f.o.b. Coalinga, this price to be subject to market fluctuations. The addition of freight and tax brings this figure to \$2.12 per barrel delivered at its plant. For the remainder of this year approximately \$2,100 will be added to the company's operating expenses on this account. Increase in regular payroll of April 1920 over December 1919 amounts to \$215 per month, to which should be added an allowance for the periodic hiring of a meter repairman. Increased labor costs will result in additional expenses of \$3,365.

The accompanying tabulation presents comparative operating statistics for the year 1919 and estimates for 1920:

TABLE NO. 1

Riverbend Gas and Water Company

Comparative Operating Statistics

	<u>1 9 1 9</u> Under Exist- ing Rates	<u>1920 Estimated.</u> Under Increased Rates herein- after fixed
Consumers, Dec. 31st	1,460	1,490
Gas Sales - M cu.ft.	42,459	43,000
Barrels of oil used	16,265	17,725
Gallons of oil per M sold	16.09	16.00
Revenue from gas sales	\$65,840.48	\$86,750.00
Operating expenses	<u>71,190.43</u>	<u>79,315.00</u>
	* \$ 5,349.95	\$ 7,435.00

* Deficit.

TABLE NO. 2

Operating Expenses

	<u>1 9 1 9</u>	<u>1920</u> Estimated
Production Expense:		
Oil	\$32,475.72	\$34,600
Other	10,946.40	14,000
Transmission Expense	2,071.57	2,100
Distribution "	5,107.70	6,600
Commercial "	5,476.18	5,175
General "	5,628.48	6,000
Taxes	4,045.38	5,340
Depreciation	<u>5,439.00</u>	<u>5,500</u>
Total	\$71,190.43	\$79,315

The above operating costs are based upon a duty of oil of 16 gallons per M cubic feet sold during the last eight months of the year. Other expenses have been determined by making due allowance for increased labor charges now in effect.

The valuation of applicant's properties was originally established in Decision No. 6500 as of December 31st, 1918, and is brought down to January 1st, 1920 as follows:-

TABLE NO. 3

	<u>Dec. 31, 1918</u>	<u>Additions to Jan. 1, 1920</u>	<u>Jan. 1, 1920</u>
Landed Capital	\$ 1,457	\$	\$ 1,457
Production Capital	41,502	1,520.75	43,022
Transmission Capital . . .	44,895	6,870.04	51,765
Distribution Capital . . .	78,124	7,694.98	85,819
General Capital	24,756	499.10	25,255
Materials and Supplies . .	<u>8,984</u>		<u>8,984</u>
Total	\$199,718	\$16,584.87	\$216,302

Applicant reports the addition of \$13,332.01 in betterments from January 1, 1920 to April 30, 1920, which would make a total value of \$229,634 as of May 1, 1920. Inasmuch as Riverbend Gas and Water Company has for some time operated its system in an inefficient manner notwithstanding the past counsel of the Commission, rates can not now be established which will yield applicant a full return upon its investment under its inefficient methods of operation. The rates herein established are such as should give applicant a substantial return upon its investment under reasonably efficient operating methods, which it is believed can readily be

put in effect by proper action upon the part of the management. The earlier decisions of this Commission have set forth in more detail the deficiencies of applicant's operations, and have laid down the principle that future operating costs should not be based upon such continued inefficiencies.

Service conditions existing in the town of Kingsburg are manifestly poor. The evidence shows that the pressure and supply of gas has been inadequate and service frequently interrupted, requiring consumers to provide other facilities for cooking. Kingsburg is at the extreme end of a long transmission line of such small capacity that the available pressures have been insufficient to deliver the required amount of gas during periods of heavy consumption. The town distribution system is normally operated under high pressure, but under present conditions the pressure in the mains frequently falls much below two pounds per square inch, in which event consumers do not receive proper service. This condition has become so frequent and critical that it is now imperative for definite measures to be taken to relieve the situation. The installation at Kingsburg of a steel compression tank for the storage of sufficient gas to carry over peak loads, and which should be filled from the supply line by means of a small motor driven compressor, would overcome the present troubles in a satisfactory manner at a minimum expense.

I recommend the following form of Order:

O R D E R

Riverbend Gas and Water Company having applied to

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the Railroad Commission for authority to increase its rates and charges for gas, a hearing having been held and the matter submitted and being now ready for decision,

The Railroad Commission of the State of California hereby finds as a fact that the rates charged for gas by Riverbend Gas and Water 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 return upon its investment, and insofar as they differ from the rates and charges hereinafter established.

Basing its order 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 Riverbend Gas and Water Company be and is hereby authorized to charge and collect the following rates for gas, effective for all regular meter readings taken on and after the 21st day of June 1920, to-wit:

SCHEDULE OF RATES

	<u>Gross</u>	<u>Net</u>	
First 500 cu.ft. or less per meter per mo.	\$1.35	\$1.25	
Next 3,500 " per meter per month	2.10	2.00	per M cu.ft.
" 6,000 " " " " "	1.85	1.75	" " "
" 15,000 " " " " "		1.50	" " "
Over 25,000 " " " " "		1.30	" " "

The net rate shall be effective for all bills paid within ten (10) days after the first of the month following each meter reading date.

PROVIDED, Riverbend Gas and Water Company shall, within ten days of the date of this order, file with the

Railroad Commission the schedule of rates herein established.

PROVIDED, further, that the above rates shall not be effective within the town of Kingsburg until Riverbend Gas and Water Company shall have installed at that place adequate gas storage equipment, and until this Commission shall have approved such installation, and shall have, by order, authorized the above rates to be charged in Kingsburg.

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

19th day of June, 1920.

Edwin C. Edgerton
A. B. Loveland
Frank R. Apple
H. B. Brundage
James Martin
Commissioners