

ORIGINAL

Decision No. 7940

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the application of
WESTERN STATES GAS AND ELECTRIC COM-
PANY, a corporation, for revision of
its schedules of rates charged for gas
in the City of Eureka, Humboldt County,
California.)

Application No. 5729.

Chickering & Gregory, by W. C. Fox,
for applicant.

J. W. Henderson, City Attorney, for
City of Eureka.

BY THE COMMISSION:

O P I N I O N

In this proceeding Western States Gas and Electric Company, engaged in supplying gas and electric service in and about the City of Eureka, Humboldt County, applies for authority to increase its rates and charges for gas service in the City of Eureka. It alleges that on account of the increase in the cost of oil used in gas manufacture and the advances in wages paid to employees its present rates for gas do not afford adequate return upon its investment or yield sufficient to provide a depreciation reserve for its gas properties.

A public hearing was held on June 25, 1920 before Examiner Satterwhite at Eureka, at which time evidence was introduced and the matter submitted.

The rates now charged by applicant for gas service in Eureka were established by this Commission's Decision No. 5155 in

Application No. 3373, dated February 25, 1918, since which time the cost of oil used in gas manufacture has advanced from \$1.75 per barrel to \$2.80 per barrel. The following table shows the extent of applicant's gas business, its revenues, operating expenses, capital and earnings for the past three years:

TABLE I
WESTERN STATES GAS & ELECTRIC COMPANY
EUREKA GAS DIVISION.

<u>Year Ending June 1st</u>	<u>1918</u>	<u>1919</u>	<u>1920</u>
Consumers	965	1009	1074
Sales of Gas, M cu.ft.	20420	21226	23732
Barrels of Oil Used	6601	6670	7391
Cost of Oil per Barrel	\$1.189	\$1.693	\$1.785
Gross Revenue	\$28,552	\$34,985	\$38,467
Operating Expenses	22,997	28,047	31,137
Net Income	\$ 5,555	\$ 6,938	\$ 7,330
Depreciation	3,809	3,857	3,974
Return	\$ 1,746	\$ 3,081	\$ 3,356
Capital, incl. Materials and Supplies and Working Capital	\$169,092	\$171,680	\$176,807
Rate of Return	1.03%	1.79%	1.90%

The capital for each year shown above is based upon the findings of value in this Commission's Decision No. 3852 in Application No. 1998, dated November 6, 1917, to which has been added the subsequent additions and betterments based upon the actual cost thereof, and an allowance for working capital and materials and supplies. The above table shows that after deducting the proper charge for depreciation upon its properties, applicant's gas business in Eureka has not at any time during the past three years earned more than a nominal return. This is also true of its operations prior to the year 1918, as set forth in the Commission's decisions in past

rate proceedings. The per capita consumption of gas in Eureka is comparatively low, as its use as a fuel is incidental, and although applicant has experienced a normal increase in the number of consumers supplied and in its sales of gas, it appears that the very nature of the business precludes any substantial return.

In addition to the increases in the cost of oil used in gas manufacture, applicant's material costs and wages paid have likewise increased, although these increases have been largely absorbed by the increased volume of sales. The following table shows the relative effect upon applicant's operating expenses of the increases in oil and the increases in other operating expenses.

TABLE II
WESTERN STATES GAS & ELECTRIC COMPANY
EUREKA GAS DIVISION
OPERATING COSTS.

<u>Year Ending June 1st</u>	<u>1918</u>	<u>1919</u>	<u>1920</u>	<u>Est.</u> <u>1921</u>
Price of Oil per barrel	\$1.189	\$1.693	\$1.785	\$2.80
Sales of Gas, M cu. ft.	20,420	21,226	23,732	26,105
 <u>Cost per M cu.ft. Sold</u>				
Oil	38.4¢	53.2¢	55.6¢	87.3¢
Other Operating Expenses, excluding taxes and depreciation	63.6¢	67.8¢	63.4¢	61.7¢
Total per M sold	102.0¢	121.0¢	119.0¢	149.0¢

From the evidence herein it appears that a reasonable estimate of applicant's revenue, expenses and earnings for the year ending June 1, 1921, is as follows:

TABLE III
WESTERN STATES GAS & ELECTRIC COMPANY
EUREKA GAS DIVISION.

REVENUE AND EXPENSES AND RETURN

	Under Present Rates	Under Proposed Rates
Gross Revenue	\$42,290	\$52,670
Operating Expenses:		
Production, Oil	\$22,770	
Other	7,135	
Distribution	3,245	
Commercial	1,816	
General	4,000	
Taxes	38,966	38,966
Uncollectible Accounts	3,053	3,820
	211	211
Total Operating Expenses	\$42,230	\$42,997
Net for Depreciation and Return	60	9,673
Depreciation	4,064	4,064
Return on Capital	\$4,044*	\$5,609
Rate of Return on \$181,930 Capital	----	3.09%

Note: * deficit.

This estimate is based upon the sale of 26,105,000 cubic feet of gas to 1108 consumers, requiring the consumption of 8132 barrels of fuel oil at the price of \$2.80 per barrel, which is the price that applicant will be required to pay for its next shipment of oil. From the above table it will be seen that the present rates are insufficient to yield to applicant more than its operating expenses, with no allowance for depreciation. It is apparent that applicant's rates for gas must be advanced if it is to earn even the nominal return experienced in the past.

The rates hereinafter established are intended to provide sufficient revenue to absorb the increased costs of operation which prevail under present conditions, and their effect upon applicant's earnings, as shown in Table III above, will enable it to meet all its operating expenses, provide for depreciation and a return upon capital devoted to the gas business. The average increase in the revenue resulting from these rates will be 38¢ per thousand cubic feet. By reason of the fact that a very large proportion of applicant's gas consumers use but very small quantities of gas it has been deemed advisable to modify the form of rate schedule in order to more properly apportion the costs of producing and distributing gas.

O R D E R

Western States Gas and Electric Company having applied for authority to increase its rates and charges for gas supplied in the City of Eureka, Humboldt County, a hearing having been held and the matter submitted and now ready for decision,

The Railroad Commission of the State of California hereby finds as a fact that the rates now charged by the Western States Gas and Electric Company for gas supplied in Eureka are not just, fair and reasonable rates in so far as they do not provide sufficient revenue and in so far as they differ from the rates hereinafter established, and further finds as a fact that the rates hereinafter established are under present conditions fair and reasonable rates for gas service to be supplied by applicant in Eureka.

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

IT IS HEREBY ORDERED that the Western States Gas and Electric Company be and it is hereby authorized to charge and collect the following schedule of rates for gas supplied in the City of Eureka:

SCHEDULE OF GAS RATES
WESTERN STATES GAS AND ELECTRIC COMPANY
EUREKA DIVISION

Rate:

100	cu. ft.	per	meter	per	month	.....	\$1.15			
200	"	"	"	"	"	.....	1.30			
300	"	"	"	"	"	.....	1.45			
400	"	"	"	"	"	.....	1.60			
500	"	"	"	"	"	.....	1.75			
600	"	"	"	"	"	.....	1.90			
700	"	"	"	"	"	.....	2.05			
800	"	"	"	"	"	.....	2.20			
900	"	"	"	"	"	.....	2.35			
First	1000	"	"	"	"	.....	2.50			
Next	1000	"	"	"	"	.....	2.00	Per 1000	cu. ft	
"	1000	"	"	"	"	.....	1.75	"	"	"
"	2000	"	"	"	"	.....	1.50	"	"	"
All over	5000	"	"	"	"	.....	1.25	"	"	"

Minimum Charge: \$1.00 per month per meter.

which rates shall be effective for all regular meter readings taken on and after the 15th day of August, 1920.

PROVIDED, Western States Gas and Electric Company shall within ten days of the date of this Order file with the Railroad Commission of the State of California, the schedule of gas rates herein established.

Dated at San Francisco, California, this 29 day of August, 1920.

Edwin O. Eslinger
W. D. Lorraine
Frank R. Brown

Commissioners.

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