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Decision No. 8241

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

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ORIGINAL

In the Matter of the Application of)
SACRAMENTO GAS COMPANY for an order)
increasing gas rates in the City of)
Lodi, California.)

Application No. 5694

Chas. T. Hills, for Applicant.

BY THE COMMISSION:

O P I N I O N

Sacramento Gas Company applies herein for authority to increase its rates and charges for gas service supplied in the City of Lodi. Applicant operates an artificial gas plant and distribution system in Lodi and is also engaged in business as a gas utility in the City of Sacramento.

It is alleged that the cost of oil and other operating expenses have increased to such an extent since the present rates were established in October 1918 by Decision No. 5865 in Application No. 4045, that its operations in the City of Lodi are being conducted at a loss.

A hearing was held before Examiner Satterwhite in Lodi on August 20th, 1920, at which time evidence was introduced as to the rates and operations of applicant and the mat-

ter then submitted.

The results of applicant's gas operations for the year ending June 30th, 1920 were as follows:

Gross revenue from gas sales	\$20,968
Operating expenses, including taxes and depreciation	<u>20,494</u>
Balance for Return	\$ 474

In this period applicant supplied 631 consumers and sold 12,450,000 cu.ft. of gas, in the manufacture of which 6,099 barrels of oil were used at an average cost of \$1.71 per barrel.

For the preceding year ending June 30th, 1919 applicant's sales and revenue were somewhat less and there was likewise a very small margin of earnings after paying operating expenses. Applicant's gas manufacturing process is not efficiently conducted, an excessive amount of oil being used in proportion to its output and in comparison with other gas utilities operating under similar conditions. The price paid for oil has steadily increased, reaching a figure of \$2.19 in August 1920, and it appears that for the period immediately following the date of this order applicant will be required to pay not less than \$2.35 per barrel for oil used in its Lodi plant.

Operating expenses, upon which the rates herein are fixed, will therefore be based upon an oil cost of \$2.35 per barrel and a consumption of 16 gallons of oil per thousand cubic feet of gas sold, which is a reasonable use for this plant. The normal growth of the system indicates that in the period considered, approximately 694 consumers would be supplied and applicant's sales would aggregate 13,700,000 cu.ft. per annum. From the evidence herein, it appears that the reasonable operating expenses chargeable against applicant's gas operations in Lodi will be the sum of \$28,777, as detailed in the follow-

ing table. The revenue to be derived from the present rates will be but \$27,400, so that an annual operating deficit of \$1,377 will result.

SACRAMENTO GAS COMPANY

LODI PLANT

REVENUE AND EXPENSES

	<u>Under Present Rates</u>	<u>Under In- creased Rates Authorized</u>
Revenue	\$27,400	\$34,270
Operating Expenses:		
Production - Oil	\$12,267	\$12,267
" - Other	7,050	7,050
Distribution	2,150	2,150
Commercial	1,770	1,770
General	1,830	1,830
Taxes	1,670	2,080
Depreciation	1,900	1,900
Uncollectible Accounts	140	160
Total Operating Expenses	\$28,777	\$29,207
Deficit	\$ 1,377	
Net for Return		\$ 5,063

Applicant has not fully complied with this Commission's requirements for gas service. Pressure conditions in particular should be improved. The ability to charge compensatory rates is predicated upon a service in accord with this Commission's standards. It is apparent, however, that there is a real necessity for providing applicant with greater revenue by reason of the increases in operating costs which it has been compelled to meet. An increase of about 25% in its existing rates is necessary to meet the present level of operating costs and provide a normal return. The rates set forth in the

order herein are designed to accomplish this purpose, and, as shown in the preceding table, will produce an annual revenue of \$34,270, which, after the deduction of operating expenses set forth, will leave a net for return of \$5,063 per annum.

In Decision No. 5865 supra, a reasonable value of applicant's physical properties at that time was taken as \$71,800. Subsequent expenditures to date for additions and betterments aggregate \$5,403. Making due allowance for working capital and materials and supplies, it appears that a reasonable valuation of applicant's properties for the purpose of this proceeding would be in the sum of \$82,500. Upon this basis the yield to be obtained from the rates herein established is slightly in excess of 6%. There is every opportunity, however, of applicant's reducing operating expenses by improved methods and efficiencies which will substantially increase the earnings from its business.

O R D E R

The Sacramento Gas Company having applied to the Railroad Commission for authority to increase its gas rates in the City of Lodi, a hearing having been held, the matter being 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 Sacramento Gas Company for gas service in the City of Lodi are not just and reasonable rates and that the rates herein authorized are, under present conditions, just and reasonable rates for gas in the City of Lodi.

Basing its order on the foregoing findings of fact and the other findings of fact contained in the opinion which precedes this order.

IT IS HEREBY ORDERED that Sacramento Gas Company be and it is hereby authorized to charge and collect for gas in the City of Lodi, the following schedule of rates, effective for all regular meter readings taken on and after the 25th day of October, 1920:

First 400 cu.ft. per meter per month, or less	\$1.25	
Next 2,600 cu.ft. per meter per month ..	\$2.25	per M cu.ft.
" 7,000 " " " " " ..	2.00	per M cu.ft.
" 10,000 " " " " " ..	1.85	per M cu.ft.
All over 20,000 " " " " " ..	1.70	per M cu.ft.

PROVIDED, Sacramento Gas Company shall, within ten days of the date of this order, file with the Railroad Commission the schedule of gas rates herein authorized.

Dated at San Francisco, California, this 15th day of October, 1920.

Edwin O. Edgerton

Frank P. Brown

H. B. Brundage

Dwight Martin
Commissioners.