

Decision No. 8755

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

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In the Matter of the Application of)
CONTRA COSTA GAS COMPANY, a corpor-) Application No. 6328
ation, for a revision of its rates.)

S. Waldo Coleman, for Applicant.
A. F. Bray, City Attorney, for the
City of Martinez.
Mathew Ward, City Attorney, for
the City of Antioch.
R. N. Wolfe, City Attorney, for
the City of Pittsburg.

BY THE COMMISSION:

O P I N I O N

The Contra Costa Gas Company, hereinafter referred to as the company or applicant, is a corporation engaged in the business of manufacturing, distributing and selling artificial gas in a territory including the incorporated cities and towns of Antioch, Concord, Martinez and Pittsburg, the town of Crockett and certain contiguous unincorporated territory in Contra Costa County. This company in its application alleges that the greater price it will have to pay for oil and other increased operating expenses due primarily to higher wages and salaries, will deprive it of a reasonable return upon the money actually invested in its business and that subsequent to December 31, 1920 this return will be so inadequate that unless

relief is granted the applicant will be powerless to properly perform its duties as a public utility. For these reasons the company asks the Commission for an order authorizing an increase in its rates to a point where the return will be sufficient to pay full cost of service, including a reasonable allowance for depreciation and yield a reasonable return on the applicant's investment.

A public hearing was held before Examiner Satterwhite at which evidence was taken, and the matter has been submitted for decision.

The present rates were established by Decision No. 6975, decided December 19, 1919. In that decision the Commission found that \$310,000 was the proper allowable capital for a rate base. During 1920 the company has expended \$55,951 in additions and estimates that \$10,000 will be added to the physical capital by improvements during 1921. Using the average physical value for 1921 and making reasonable allowance for materials and supplies and working cash capital the Commission finds that a fair rate base is \$356,176.

Decision No. 6975 granted an increase in rates upon the showing that the price of oil would increase from \$1.70 to \$1.85 per barrel and that increases in other operating costs would occur. The company, however, was able to make a contract for a supply of oil for a portion of the year at \$1.63 per barrel. Upon the basis of the estimates used therein the applicant should have been able to save approximately 8 cents per M sold, but other expenses increased correspondingly, thus practically absorbing the saving from lower cost of oil.

Analysis of the 1920 operating costs reveals the fact that there has been a steady increase in expenses in all depart-

ments and that the item of cost of oil for production has reached a figure which is considered excessive by the Commission's engineers. Apparently this high consumption of oil is due to unaccounted-for gas. In consideration of the fact that the company's meters, mains and services are comparatively new and that the generating plant is modern, a limit of 13½ gallons per M sold is considered reasonable for 1921 consumption. This reduces the amount estimated by the applicant for this purpose to \$44,520.

The applicant requests \$10,500 annual depreciation. Compared with previous estimates made by this Commission and the general records of depreciation applicable to gas properties of this character, we find that an annuity of 2-3/4% on the depreciable property, or \$8,900 for the year 1921, will be reasonable.

The following table sets forth the Commission's estimate of expenses and return for 1921 with the present rates:

ESTIMATED REVENUE AND EXPENSES

CONTRA COSTA GAS COMPANY

YEAR 1921

Gross Operating Revenue	\$120,645
Gross Operating Revenue per M	1.915

Operating Expenses:

Production Oil	\$ 44,520
Production Other	20,668
Transmission	5,423
Distribution	7,644
Commercial	12,866
General and Misc. Exp.	4,936
Taxes	9,200
Uncollectible Accounts	900
Total	\$106,157

(Brought Forward) Total	\$106,157
Depreciation	<u>8,900</u>
Total	\$115,057
Net for Return	\$ 5,588
Rate for Return on Rate Base of \$356,176 ...	1.57%

In this estimate the cost of oil was calculated at \$2.24 per barrel, which is the present market price.

The estimated rate of return for the year 1921 under the existing rates is, as stated above, 1.57% upon the rate base. This rate of return can be earned only by the strictest economy on the part of the company and improvement in the efficiency of its gas production plant. It is evident that the

rates for gas must be increased if the company is to continue to render adequate service to the territory at present served.

Applicant requests rates sufficient to give it a net return of 8.4% on the rate base. The evidence in this case indicates that on account of the quality of service rendered in the past and the present cost of gas some consumers are discontinuing the use of gas, and it is the opinion of the Commission that the value of service is such that applicant cannot expect to earn a return of 8.4% under existing conditions; that to increase rates sufficient to attempt to make this return would result in loss of business and a charge to consumers in excess of the reasonable value of the service. With adequate service applicant should be in a position to earn a return of approximately 7% upon its investment and the consumers of applicant must expect to pay rates sufficient to result in such a return if reasonable service is rendered. The price for gas

herein fixed is not prohibitive if the gas is used efficiently, but the efficiency of use of gas depends largely upon the character and quality of service rendered by a utility.

The present rates, which were fixed by this Commission in Decision No. 6975, were based upon the understanding that the Contra Costa Gas Company would fully comply with the standards of gas service as prescribed by the Commission's General Order No. 58. The investigations made by the Commission's gas service inspector show that applicant has not complied in full with the standards prescribed by the Commission and that service has not been entirely satisfactory. The result of this failure to render adequate service has been the complaint filed by the residents of the town of Crockett, Case No. 1499, in which complainants request a credit on their bills, and also some loss of consumers on the rest of the company's system. Applicant's service must be brought to standard before further increases in rates are authorized.

In view of the above facts the rates herein proposed will not be made effective until applicant has submitted proof and an inspection by the Commission's gas engineers shows that it is in a position to render service of value which will justify the rates which are herein prescribed.

O R D E R

Contra Costa Gas Company having applied for authority to increase its rates and charges for gas, a public hearing having been held, the matter submitted and being now ready for decision,

The Railroad Commission of the State of California hereby finds as a fact that the present rates charged for gas

service by Contra Costa Gas Company are not fair and reasonable rates and that the rates herein established are just and reasonable rates for the service of gas by Contra Costa Gas Company when such service complies with the specifications and standards prescribed by the Railroad Commission.

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 Contra Costa Gas Company be, and it is, hereby authorized to charge and collect the following schedules of rates for gas service rendered when said company has obtained from this Commission a Supplemental Order finding that the quality of service rendered has been improved to comply with the standards prescribed by the Railroad Commission of the State of California:

SCHEDULE NO. 1

							<u>Gross</u>	<u>Net</u>
First	400 cu.ft. or less per meter per month						\$1.35	\$1.25
Next	3,600 cu.ft. per meter per month, per M						2.35	2.25
"	4,000 "	"	"	"	"	"	2.00	1.90
"	7,000 "	"	"	"	"	"		1.65
All over	15,000 "	"	"	"	"	"		1.40

The net rate is effective if the bill is paid at the office of the Company on or before the tenth day of the month next succeeding that for which the bill is rendered. Otherwise the gross charge applies.

SCHEDULE NO. 2

Prepay Meter Service

Rate \$2.40 per M cu.ft.
Minimum Charge 1.25 per Meter per Month

SCHEDULE NO. 3

Hotels, Restaurants and Bakery Service

	<u>Gross</u>	<u>Net</u>
Rate per M cu.ft. per meter per month	\$1.45	\$1.35
Minimum weekly charge per meter	8.50	8.00

The net rate is effective if the bill is paid at the office of the Company within four (4) days after the presentation of the weekly bill. Otherwise the gross charge applies.

Dated at San Francisco, California, this

17th day of March, 1921.

Frank R. Dubon
H. H. Howard
James Martin

Commissioners.