

Decision No. 8937

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

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In the Matter of the Application of)
COAST VALLEYS GAS AND ELECTRIC COM-) Application No. 6614
PANY, a corporation, for an order)
increasing its gas rates.)

James F. Pollard and L. B. Jones,
for Applicant.
G. A. Daugherty, Mayor, and J. H.
Anderson, City Attorney, for
City of Salinas.
E. G. Jorgensen, City Attorney, for
City of Pacific Grove.

BRUNDIGE, Commissioner:

O P I N I O N

Coast Valleys Gas and Electric Company, herein referred to as applicant or company, requests authority to increase its rates and charges for gas service rendered in the cities of Salinas, Monterey and Pacific Grove and contiguous territory. In support of this request applicant alleges in effect that under present rates it is not earning a reasonable return upon its operative investment; that since the rates now in effect were authorized by the Commission the cost of oil used in the manufacture of gas has materially in-

creased; that it has invested a large sum of money in its gas system for the improvement of service, and that the present rates have failed to yield the revenue during the past year heretofore estimated.

Coast Valleys Gas and Electric Company is engaged in several public utility enterprises in Salinas Valley in addition to the service of gas heretofore referred to. However, these other services are not before the Commission for consideration at this time.

A hearing in this proceeding was held at Monterey on April 11th, 1921, at which time evidence was taken relative to the operations of applicant, the matter was submitted and is now ready for decision.

The present rates charged by applicant for gas service were established by this Commission in its Decision No. 7161 (Opinions and Orders of the Railroad Commission of the State of California Vol. 17, page 828). The gas service of applicant in Salinas is separate and distinct from that in Monterey and Pacific Grove, the latter two communities being served from a gas generating plant located in Monterey. The rates heretofore fixed by this Commission were based upon an analysis of the different conditions in the two separate districts and in this proceeding the differential between the two districts will be taken as a basis in determining the rates to be fixed. The price of oil in effect at the time the present rates were fixed was for Salinas \$1.90 per barrel and for Monterey \$1.60 per barrel. The prices for oil now in effect and estimated to continue for the coming year are:

Salinas \$2.35 per barrel; Monterey \$2.00 per barrel. The difference in the price of oil in the two communities is primarily caused by freight charges.

On the basis of the use of 13 gallons of oil per 1000 cu.ft. of gas sold in the two communities, which allowance is reasonable for these two plants considering the recent improvements to their production equipment and distribution system, it would appear that due to the increase in price of oil alone the cost of delivering gas has increased 14¢ per thousand since the last decision of the Commission. This is also equivalent to an increase in total cost, based upon 1920 operations, in excess of \$9,000 per annum.

The Commission in its previous decision found that the reasonable investment in applicant's properties as of September 30th, 1919 was \$211,426.16. Since that date applicant has expended considerable sums of money, mainly in connection with its Monterey and Pacific Grove plant, in installing a holder, additional gas plant equipment and increased distribution facilities in order to supply its consumers with adequate and satisfactory service. Improvements have also been made in the Salinas system. The capital heretofore found reasonable plus additions and betterments for the combined systems is as follows:

COAST VALLEYS GAS AND ELECTRIC COMPANY

GAS PROPERTIES

| | |
|-------------------------------------|--------------|
| Fixed Capital, Sept. 30, 1919 | \$211,426.16 |
| Actual Additions & Betterments | |
| 9/30/19 to 12/31/19 | 2,913.63 |
| Actual Additions & Betterments | |
| 12/31/19 to 12/31/20 | 50,659.71 |
| Estimated Additions & Betterments | |
| 12/31/20 to 6/30/21 | 9,600.00 |
| Total | \$274,599.50 |

If to the above amount be added a reasonable allowance for working cash capital and material and supplies, which are a part of the rate base on which applicant is entitled to a return, the rate base for the year 1921 will be \$295,000.

At the time of the previous proceeding considerable complaint was had regarding the quality of service rendered and it was pointed out by the Commission in the decision in that proceeding that applicant must improve its service conditions if it expects to receive a reasonable return upon its properties. Applicant has materially improved its gas service conditions in both districts and at the hearing in this proceeding it was generally agreed by representatives of the public and reported by the Commission's gas service inspector that a good quality of service was being rendered. A considerable part of the additions and betterments during the year 1920 were primarily for the betterment of service, and, altho with better service a greater sale of gas should necessarily result, it is apparent that this additional investment will result in additional cost per thousand cubic feet of gas sold. However, the result of this part of the increase in rate to the consumer should be practically offset by the increase in the efficient use by him of the gas resulting from the better service rendered. In addition to this there have been economies obtained by applicant by the improvements made in its system which will reduce the effect of this increased cost upon the total cost of service to consumers.

The following table sets forth the number of consumers, sales, oil requirements and revenues for 1920 and estimate for 1921 as shown by the evidence:

COAST VALLEYS GAS AND ELECTRIC COMPANY

GAS STATISTICS

| | <u>Actual 1920</u> | <u>Estimated 1921</u> |
|----------------------------|------------------------|---------------------------|
| Ave. No. of Consumers: | | |
| Salinas | 840 | 889 |
| Monterey and Pacific Grove | 1,876 | 2,020 |
| Total | <u>2,716</u> | <u>2,909</u> |
| Sales: | | |
| Salinas | 19,463,000 | 22,000,000 |
| Monterey and Pacific Grove | 46,235,000 | 53,000,000 |
| Total | <u>65,698,000</u> | <u>75,000,000</u> |
| Oil Requirements: | | |
| Salinas | 6,740 bbls. | 6,800 bbls. |
| Monterey and Pacific Grove | 14,372 " | 16,420 " |
| Total | <u>21,112 "</u> | <u>23,220 "</u> |
| Gas Sales: | | |
| Revenue - Present Rates | | |
| Salinas | \$35,638.13 | \$40,300.00 |
| Monterey and Pacific Grove | 75,355.10 | 87,200.00 |
| Total | <u>\$110,993.23</u> | <u>\$127,500.00</u> |
| Misc. Operating Revenue | <u>1,882.16</u> | <u>2,000.00</u> |
| Total | \$112,875.39 | \$129,500.00 |

The estimated operating expenses for the same period found reasonable from the evidence are as follows:

COAST VALLEYS GAS AND ELECTRIC COMPANY

SALINAS, MONTEREY & PACIFIC GROVE

GAS OPERATING EXPENSES - YEAR 1921

| | |
|------------------------------|------------------|
| Production Expense: | |
| Oil | \$48,840 |
| Other Expense | 30,000 |
| Distribution Expense | 9,330 |
| Commercial | 7,655 |
| General | 8,985 |
| Uncollectible Bills | 50 |
| Taxes | 9,562 |
| Total Operating Expense | <u>\$114,422</u> |
| Depreciation | <u>8,010</u> |
| TOTAL | \$122,432 |

From the above it appears that under present rates applicant's net earnings after setting aside depreciation will be approximately \$7,240, or only 2.45% upon the investment of \$295,000. It is apparent that a public utility such as this cannot continue to give adequate service if the return upon its investment is no greater than herein estimated. Applicant has expended a relatively large sum of money in improving its service conditions and in placing itself in a position to render adequate service and it must be reasonably compensated for the services rendered.

If applicant is allowed rates based upon a return of 8% upon its reasonable investment it will be necessary to increase the gross revenue of applicant, based upon a year's operations, by \$18,100.

Applicant has materially improved the quality of service rendered and is maintaining a standard which practically complies with the requirements set forth in the Commission's General Order. Certain minor infractions of the Order still exist but applicant is working to remove these infractions as fast as possible altho complete compliance with the requirements will require some period of time. Analysis of the operating expenses of applicant by the Commission's Engineering Department shows that the expenses heretofore set forth are reasonable expenses in this instance. Applicant is faced with a cost of operation which it cannot overcome and if its consumers desire continuance of service it must be expected that they will compensate it reasonably for such service when the same is satisfactory.

The rates set forth herein are fixed such that they should return to applicant, provided it maintains the efficiency herein estimated, a return of approximately 8% upon its reasonable investment.

I recommend the following form of Order:

O R D E R

Coast Valleys Gas and Electric Company having applied for authority to increase its rates and charges for gas in Salinas, Monterey, Pacific Grove and contiguous territory, a public 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 for gas by Coast Valleys Gas and Electric Company are not just and reasonable rates in so far as they do not adequately compensate it for the service rendered and in so far as they differ from the rates and charges herein established.

Based on its order on the foregoing finding of fact and on the other findings of fact contained in the Opinion which precedes this Order.

IT IS HEREBY ORDERED that Coast Valleys Gas and Electric Company be, and it is hereby, authorized to charge and collect for gas sold in the localities set forth in the respective schedules the following rates and charges for gas service, based upon all regular meter readings taken on and after May 20th, 1921:

SCHEDULE "A"

DOMESTIC AND COMMERCIAL GAS SERVICE

CHARACTER OF SERVICE:

Gas of an average heating value of 570 B.T.U. per cubic foot will be supplied under this schedule for lighting, heating and power service.

TERRITORY:

This rate applies to the incorporated cities of Monterey and Pacific Grove and adjacent territory thereto.

RATE:

| | | | | | |
|--|--------|-------|--------|---|---|
| First 500 cu.ft. or less per meter per month | \$1.15 | | | | |
| Next 2,000 cu.ft. per meter per month .. | \$2.00 | per M | cu.ft. | | |
| " 2,500 " " " " " " .. | 1.75 | " | " | " | " |
| " 5,000 " " " " " " .. | 1.60 | " | " | " | " |
| " 5,000 " " " " " " .. | 1.40 | " | " | " | " |
| All over 15,000 " " " " " " .. | 1.25 | " | " | " | " |

SCHEDULE "B"

DOMESTIC AND COMMERCIAL GAS SERVICE

CHARACTER OF SERVICE:

Gas of an average heating value of 570 B.T.U. per cubic foot will be supplied under this schedule for lighting, heating and power service.

TERRITORY:

This rate applies to the incorporated city of Salinas and adjacent territory thereto.

SCHEDULE "B" (Cont'd)

RATE:

| | | | | | | | | |
|--|--------|-------|--------|---|--|--|--|--|
| First 500 cu.ft. or less per meter per month | \$1.15 | | | | | | | |
| Next 2,000 cu.ft. per meter per month .. | 2.15 | per M | cu.ft. | | | | | |
| " 2,500 " " " " " " .. | 1.95 | " | " | " | | | | |
| " 5,000 " " " " " " .. | 1.75 | " | " | " | | | | |
| " 5,000 " " " " " " .. | 1.50 | " | " | " | | | | |
| All over 15,000 " " " " " " .. | 1.40 | " | " | " | | | | |

IT IS HEREBY FURTHER ORDERED that Coast Valleys Gas and Electric Company shall, within 10 days of the date of this order, file with the Commission the schedules herein set forth.

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

6th day of May, 1921.

H. J. Loveland
H. B. Brundage
J. W. Stanton
A. O. Benedict

Commissioners.