

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of Southern Counties Gas Company
of California for Authority to
Increase its Rates for Natural Gas
Supplied to its Southern District,
Including Long Beach, Wilmington,
San Pedro, Seal Beach and Contiguous
Territory.

}
Application 6068.
}

LeRoy M. Edwards and L. N. Whealton,
for Applicant.
Geo. L. Hoodenpyle and Bruce W. Mason
for City of Long Beach
Jess. Stephens, William P. Mealey, H. Z.
Osborne, Jr., Stanley C. Carnahan,
for City of Los Angeles, Wilmington
and San Pedro.
Adolph B. Rosenfield, Grover C. Gates,
J. E. Burney
for East Long Beach Industrial & Im-
provement Association and Signal Hill
Improvement Ass'n.
Geo. A. Brown, for Long Beach Chamber of
Commerce
A. Du Reuiz, City Engineer Long Beach
O. R. Cline, City Gas Inspector Long Beach
A. P. Hansen for Apartment House Association
A. J. Spinner, for City of Seal Beach
G. E. Marsh, for Long Beach Improvement Ass'n.

BRUNDIGE, Commissioner.

O P I N I O N

Southern Counties Gas Company, applicant herein, requests authority to increase its rates and charges for natural gas supplied to all classes of its consumers in its Southern District, comprising Long Beach, Wilmington, San Pedro, Seal Beach and contiguous territory.

Applicant alleges that since it has been in possession of this system the average rate of return realized upon its investment has not been fair and reasonable and that under the present rates it will not earn a fair return during the ensuing year,

largely because of increases in costs of labor, materials and natural gas which have recently become effective. Applicant further alleges that it has been obliged to make large expenditures for improvements to its system; that the cost of money for financing these betterments has continually increased until at the present time the cost of money has reached 8.4% with an average of nearly 7% for all money obtained to date; that at the time of purchase of the Long Beach properties in 1916, the average investment per consumer amounted to 362.90, while since then over \$1,025,000 has been expended and the unit investment has increased to more than \$125 per consumer. It is further alleged that because of operating a natural gas system, without maintaining artificial gas generating plants as stand-by equipment, applicant is subject to unusual hazards, and rates upon money obtained by it, are therefore somewhat in excess of those to other utilities' that, however, benefits to the consumer in the form of lower rates, have resulted with the natural gas service, which much more than offset additional interest charges.

Because of the high cost of money and hazard of operation, applicant asks that a ten percent return be allowed upon its capital investment. This rate it states is necessary to induce the investment of additional capital for financing improvements to its system, the estimate cost of which will amount to \$325,000, in the Long Beach district during the year ending August 1, 1921.

Hearings in this application were held in Long Beach at which time complete evidence was introduced and the matter was thereupon submitted and is now ready for decision.

Long Beach and vicinity was originally supplied with artificial gas manufactured locally. In 1912, the Long Beach Consolidated Gas Company introduced mixed gas purchased from the Southern California Gas Company in Los Angeles. When the pipe-line from the Fullerton Oil Fields was completed in 1915, the present natural gas service was started. The Southern Counties Gas Company purchased the property of the Long Beach Consolidated Gas Company in June, 1916, and at that time entered into a new and more favor-

able contract with Southern California Gas Company for a gas supply for Long Beach. Since the introduction of natural gas, Long Beach has experienced a most phenomenal growth both in population and in demand for gas. The original gas distributing and storage facilities have proved entirely inadequate, and large sums have been required for additions and improvements to plant equipment. However, after a detailed study of gas requirements, it is apparent that further improvements must be made in order to provide full and satisfactory service.

Evidence introduced by certain of applicant's consumers is to the effect that unsatisfactory service conditions were experienced in several localities, especially in East Long Beach and Seal Beach during the winter period. Investigations and tests by the Commission's engineers show the need of considerable additional compression, transmission and distribution facilities being installed.

For many years Long Beach localities have experienced much annoyance due to inadequate service conditions, and there has been a tendency for this trouble to become more general with the extension of territory served. Eastern parts of this district have suffered severely due to lack of proper gas pressure in the mains. This condition has been extremely acute in Seal Beach and portions of East Long Beach, pressure frequently being so low that it was comparable to a complete outage, making impossible the preparation of meals and other operations for which gas is most needed.

Certain outlying sections of this district, especially in the vicinity of East Long Beach, have developed very rapidly. This has resulted in a demand for numerous gas main extensions, many of which have been long delayed causing much annoyance to prospective consumers. Some time ago applicant was unable to obtain a sufficient supply of pipe necessary to make extensions, and also because of a shortage of funds with which to finance the extensive improvements, work was greatly retarded. These conditions are, however, past, and new extensions as provided for by the company's

rules and regulations are now being laid.

Applicant calls attention to heavy peak demands for gas which occur only during short intervals of a few hours daily during the winter period. This condition makes difficult the rendering of satisfactory service because of the extremely heavy load placed upon all lines simultaneously. Southern Counties Gas Company is largely dependent upon other utilities for its supply of gas and during peak hours naturally experiences difficulty in obtaining sufficient hourly deliveries to meet its requirements, as other companies are subject to similar peak demands. Investigation of operating methods in this district indicates the necessity of providing means for distributing an increased amount of gas from storage holders, during morning hours. This will require the installation of additional compressor units, and at this time this Commission directs attention to the advisability of installing equipment of ample capacity, which may at some future date form a part of an artificial gas plant. Adequate compressors will assist largely in the rendering of good service and will also contribute materially to the general welfare of adjacent natural gas communities, by making possible the most advantageous utilization of storage capacity.

Applicant's petition in this matter brings forth issues which affect rates to an unusual extent. Because of the hazards of its operations and the probable future necessity of constructing a large modern artificial gas generating plant when the natural gas supply becomes exhausted, applicant asks that in addition to paying all operating expenses, depreciation and a 10% return upon its investment, it be granted rates sufficient to set aside a reserve fund of \$50,000 per year which it proposes be carried in cash or liquid securities. It is claimed that such a fund is necessary to insure financial stability and to maintain applicant's credit during the transition period from natural to artificial gas service. It is proposed that funds in this reserve be available: (1) to supplement inadequate earnings at any

time; (2) to amortize non-operative property not covered by depreciation annuities; (3) and to provide funds for temporary loans during emergency periods.

Applicant's proposal is in effect that its income be practically guaranteed at 10% upon its operative investment. It is important that it be in a position to adequately maintain service during the period of transition from natural to artificial gas and as heretofore decided it is entitled to amortize certain of its investment made obsolete by introduction of a better quality of gas. I am convinced, however, that the service can be most adequately safeguarded prior to and during such a period and with fairer treatment to present and future consumers by applicant installing certain of the necessary betterments to its system now, with a view of the same becoming an integral part of an ultimate artificial gas generating plant. This equipment, such as compressors, holders and mains, will be of benefit to consumers during the natural gas period and will also be operative property and applicant will be entitled to a return on same.

In determining whether applicant's request for an increase of rates is justified, a careful analysis of the evidence has been made and estimates of revenue and expenses for the year ending June 30, 1921 will be used, as these estimates will be closely indicative of the future conditions when revised for special features which now exist.

The historical reproduction cost of applicant's property as of January 1, 1918 was established by this Commission in Decision No. 5539 of Opinions and Orders of the Railroad Commission, Volume 15, Page 928. To this actual net additions and betterments have been added and certain adjustments and transfers made to bring the same up to January 1, 1921, showing the average capital for the period in question.

The following summary sets forth the rate base used herein for the year ending June 30, 1921.

TABLE NO. 1
SOUTHERN COUNTIES GAS COMPANY
Southern District,
RATE BASE AS OF JANUARY 1, 1921.

Fixed Capital

Franchises	\$	1,154.40
Land		13,458.00
Transmission Capital		627,535.39
Distribution "		1,281,555.64
General		28,204.86
<u>Total Fixed Capital</u>		<u>1,951,908.29</u>

Materials and Supplies	49,600.00
Working Cash Capital	<u>61,450.00</u>

TOTAL FOR RATE BASE	2,062,958.29
---------------------	--------------

Gas operations for the period considered herein have been determined after a study of the experience of preceding years, as set forth in the evidence, modified for changes which have recently become effective. The quantity of gas needed has been determined after studying the growth of the community and the average unit consumption. It is estimated that domestic sales will amount to 847,000 M cubic feet, and total gas requirements with industrial sales equal to those of last year will aggregate 1,462,532 M cubic feet.

The accompanying table presents a comparative statement of operating statistics for the past three years together with an estimate for the year ending June 30, 1921, if the present rates are continued in effect.

TABLE NO. 2
SOUTHERN COUNTIES GAS COMPANY
Southern District
COMPARATIVE OPERATING STATISTICS

	Year to 6-30-1918	Year to 6-30-1919	Year to 6-30-1920	Estimate for Year ending 6-3-1921 with Present Rates
Consumers	\$ 17,353	\$ 18,383	\$ 20,894	\$ 24,200
Dom. Gas Sales M.Cu. Ft.	308,928	596,041	736,066	847,000
Sales per Consumer	17,800	32,942	35,229	35,000
Industrial Sales Cu. Ft.	425,502	796,946	556,300	215,532
Unaccounted for	284,437	247,722	342,972	350,000
Total Gas Purchased	1,018,868	1,430,514	1,316,516	1,462,532
Revenue	\$ 391,648	\$ 650,830	\$ 659,590	\$ 755,766
Operating Expense	354,866	520,139	520,821	634,015
Net for Return	\$ 36,782	\$ 130,691	\$ 138,769	\$ 121,751
Approximate Rate Base	\$ 111,101	\$ 1,313,449	\$ 1,682,822	\$ 2,062,958
% Return	3.31%	9.95%	8.25%	5.9%

In determining the reasonable operating expenses for the period being considered, careful analysis of the records of the company has been made. The cost of gas purchased has been based on the present average price. No deduction for expense of selling appliances has been made, but the revenue therefrom has been included in the return. Other expenses as appear reasonable have been allowed. The tax rate to be paid by applicant hereafter has been increased from 5.6% to 7.5% of its gross revenue and this item has been corrected to conform thereto in order that the estimates will more exactly measure future conditions.

This Commission's Decision No. 5539 provided for the amortization of certain non-operative property amounting to \$47,841 as of January 1, 1918, on a 6% sinking fund basis over a period of ten years. Applicant now reports certain charges and credits to this account which indicate an unamortized balance of

\$42,585 as of June 30, 1920, and asks that this amount be amortized in period of three years. Accruals to this reserve computed in conformity with the previous decision should amount to \$11,571 leaving an unamortized balance of \$36,270 as of January 1, 1921. After consideration of the matter I am of the opinion that a five year additional period in which to amortize this amount is entirely reasonable. An amortization annuity of \$8,610.50 is therefore made on a five year 6% sinking fund basis, which at the same time allows 6% upon the unamortized balance.

Depreciation will be allowed at the same rates as heretofore found reasonable in Decision No. 5539.

Applicant prays that it be granted a return of 10% upon its capital investment in view of the hazard associated with natural gas operations and because of the high cost of borrowed money. To date the average cost of money to applicant has been over 6.9% and recently borrowed amounts have cost 8.4%. This Commission has previously allowed 10% return on certain hazardous enterprises where natural gas was transmitted long distances and expensive lines were required. Service of natural gas to a residence city by a distributing company can not well be considered as a similar class of utility service. However, in view of the existing circumstances of this particular case and the low relative cost of service and the present cost of money it appears reasonable to grant a 9½% return to applicant.

Because of the large number of changes in gas connections, applicant asks that a charge of \$1.00 be deposited with the company by all new consumers. This amount is intended to cover the expense of turning off and on meters where service is not continued at the same location for a period of 12 months or more. Many consumer's total bill for all service rendered is only \$1.00 thereby resulting in a loss to applicant, which must be distributed as increased rates to permanent consumers. Detailed investigation shows that during the period from September, 1919 to August 1920, there were 18,602 meters turned on and

15,007 turned off, making a total number of changes 33,609, compared with an average number of consumers of approximately 24,000.

It is apparent that a large proportion of applicant's business is of a very transient nature, this condition being quite uniform throughout the year. During 1920 the total expenses involved in this work amounted to \$15,351, or an average of \$.457 for turning a service off or on. This cost is now being absorbed in general rates to permanent consumers. It therefore appears proper to provide a certain charge which will alleviate this inequitable condition. Accordingly a service connection charge of \$.50 per meter, will be authorized herein, to be paid by each new consumer hereafter, to cover cost of turning on the service. This should yield a revenue of \$9,500 per year, which amount has been credited to the cost of service in the determination of rates.

The following table summarizes the estimated revenue from existing domestic rates, operating expenses and total cost of service for the year ending June 30, 1921, as determined from an analysis of the evidence in this proceeding.

TABLE NO. 3

SOUTHERN COUNTIES GAS COMPANY

Southern District

ESTIMATED REVENUE AND EXPENSES UNDER EXISTING RATES
FOR YEAR ENDING JUNE 30, 1921.

GROSS REVENUE

Gas Sales

Domestic and Commercial Service	\$658,966
Industrial Gas Sales	75,650

Miscellaneous

Transmission Charges	4,500
Net Merchandise Profits	<u>8,500</u>

<u>TOTAL GROSS REVENUE</u>	747,616
----------------------------	---------

OPERATING EXPENSES

Production	283,500
Transmission	25,690
Distribution	66,260
Commercial	66,365
General	69,700
Taxes	64,500
Uncollectible Accounts	<u>1,550</u>
<u>TOTAL</u>	<u>\$577,565</u>

<u>DEPRECIATION AND AMORTIZATION</u>	<u>56,450</u>
--------------------------------------	---------------

<u>TOTAL OPERATING CHARGES</u>	634,015
--------------------------------	---------

<u>NET FOR RETURN</u>	113,601
-----------------------	---------

<u>9½% RETURN ON RATE BASE OF \$2,062,958</u>	195,981
---	---------

<u>DEFICIT BELOW 9½% RETURN</u>	82,380
---------------------------------	--------

The rates hereinafter set forth should provide applicant with sufficient revenue to meet all proper operating expenses and to realize the fair return herein estimated upon its investment, accounting being made for revenue received from the connection charge herein authorized.

I submit the following form of order:

O R D E R

Southern Counties Gas Company having applied to the Railroad Commission for an order granting authority to increase its rates and charges for natural gas sold to its several classes of consumers in its Southern District, public hearings having been held and the matter having been submitted and being now ready for decision, the Railroad Commission hereby finds as a fact that the rates now charged by Southern Counties Gas Company insofar as they differ from the rates herein fixed, are not just and reasonable rates, and that the rates herein established are just and reasonable rates for domestic and industrial gas service in its Southern District.

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

IT IS HEREBY ORDERED that Southern Counties Gas Company be, and it is hereby authorized to charge and collect the following rates for gas sold under the several schedules for domestic and industrial purposes in its Southern District, which rates shall be effective for all regular meter readings taken on and after the 1st day of July, 1921.

SCHEDULE NO. 2-A

SOUTHERN DISTRICT

GENERAL SERVICE

Applicable to Domestic and Commercial Service for lighting, heating and cooking, including restaurants, apartment houses, hotels, hospitals, sanitarium, business buildings of all kinds, schools and churches.

TERRITORY

Applicable to Southern District including Long Beach, Seal Beach, Wilmington, San Pedro and adjacent territory.

RATE									
First	1,000	cu.	ft.	or less	per meter	per mo.	.....	\$1.00	
Next	4,000	"	"		per meter	per month.	.....	.90	per M Cu.Ft.
Next	10,000	"	"	"	"	"	.....	.80	" " "
Next	35,000	"	"	"	"	"	.....	.70	" " "
All Over	50,000	"	"	"	"	"	.....	.60	" " "

SPECIAL CONDITIONS

Consumers served under this schedule have priority in the use of gas over consumers served under Schedule No. 2-B, No. 2-C and No. 2-D at times when there is insufficient gas to supply the demands of all consumers.

SCHEDULE NO. 2-B

SOUTHERN DISTRICT

GAS ENGINE SERVICE

Applicable to service for internal combustion engines only.

TERRITORY

Applicable to Southern District, including Long Beach, Seal Beach, Wilmington, San Pedro and adjacent territory.

RATE

First	50,000	cu. ft.	per meter	per month	....	\$.55	per M. cu. ft.
Next	150,000	"	"	"	"	.45	" " " "
All Over	200,000	"	"	"	"	.40	" " " "

MINIMUM CHARGE

From May to October inclusive	.....	\$5.00	per meter	per mo.
From November to April inclusive	.....	1.00	"	" " "
For continuous annual service	.....	36.00	"	" " yr.

SPECIAL CONDITIONS

Consumers served under this schedule have priority in the use of gas over consumers served under Schedules No. 2-C and No. 2-D, but will be subject to the prior use of consumers served under Schedule No. 2-A at times when there is insufficient gas to supply the demands of all consumers.

SCHEDULE NO. 2-C

SOUTHERN DISTRICT

COMMERCIAL AND INDUSTRIAL SERVICE

Applicable to commercial and industrial service such as bakeries, packing houses, metal working plants, preserving and canning establishments, fruit and vegetable dryers and other consumers whose demands for gas are not dependent upon atmospheric temperature, or upon the preparation of meals and whose times of maximum demand, if any, do not coincide with the maximum demand of consumers served under Schedule No. 2-A.

TERRITORY

Applicable to Southern District, including Long Beach, Seal Beach, Wilmington, San Pedro and adjacent territory.

RATE

First	50,000	cu. ft. per meter per month..\$	.50	perM	Cu. Ft.
Next	150,000	" " " " " "	.45	" "	" "
Next over	300,000	" " " " " "	.40	" "	" "
All over	500,000	" " " " " "	.38	" "	" "

MINIMUM CHARGE

From May to October inclusive.....\$15.00 per meter per month
From November to April inclusive.... 1.00 " " " "
For continuous annual service..... 96.00 " " " year.

SPECIAL CONDITIONS

(a) Priority:

Consumers served under this schedule have priority in the use of gas over consumers served under Schedule No. 2-D, but are subject to the prior use of consumers served under Schedules No. 2-A and No. 2-B, at times when there is insufficient gas to supply the demands of all consumers.

(b) Pressure:

When service is desired at a pressure other than that normally served at 4 oz. above atmospheric, the above rate will be increased 1% for each two pounds by which the average required and delivery pressure exceeds three pounds per square inch.

SCHEDULE NO. 2-D

SOUTHERN DISTRICT

SURPLUS INDUSTRIAL SERVICE:

Applicable to industrial service on existing mains having a delivery capacity in excess of the present requirements of consumers served under Schedules No. 2-A, No. 2-B, and No. 2-D; for use in steam boilers, incinerators, kilns, or similar equipment, in which the gas is not used to heat buildings or to prepare meals, and which are equipped to use other fuels on thirty minutes notice. Consumers receiving service under this schedule are required to maintain adequate supplies of such other fuels.

TERRITORY:

Applicable to Southern District including Long Beach, Seal Beach, Wilmington, San Pedro and adjacent territory.

RATE:

35 cents per 1,000 cubic feet.

MINIMUM CHARGE

From May to October inclusive\$50 per meter per month
From November to April inclusive..... 5 " " " "
For continuous yearly service.....330 " " " " year

SPECIAL CONDITIONS

At times of gas shortage service to consumers under this schedule will be shut off in favor of consumers served under Schedules No. 2-A, No. 2-B and No. 2-C.

A contract for a period of one year will be required as a condition precedent to service under this schedule.

CLASS "A" INDUSTRIAL SERVICE - "LIMITED"
SOUTHERN DISTRICT.

INDUSTRIAL GAS SERVICE

Applicable to industrial service on existing mains having a delivery capacity in excess of the present requirements of consumers served under Schedule 2-A. For natural gas used for purposes where gas fuel is essential to continued operation, such as metal working processes, glass manufacture, special tile manufacture and the preparation of food products.

TERRITORY

Applicable to Southern District including Long Beach, Wilmington, San Pedro and adjacent territory.

RATE

Readiness-to-serve charge: \$15 per meter per month
Plus Consumption charge; 40¢ per 1000 cu. ft. delivered

SPECIAL CONDITIONS

(a) Service under this schedule will be granted only subject to approval by the Railroad Commission of the State of California.

(b) Service under this schedule has priority over other industrial service, but is subject to discontinuance in case of necessity in favor of domestic service.

It is hereby further ordered that:

Southern Counties Gas Company be and it is hereby authorized to charge and collect a service connection charge of \$.50 per meter for the connection of new or resuming consumers.

It is hereby further ordered that:

Southern Counties Gas Company shall, within twenty days from the date of this order, file with the Railroad Commission the schedules of rates herein established.

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 28th day of Mar 1921.

H. B. Anderson
F. J. Townsend
Irving Martin
Charles H. Kowee
W. F. Perren
Commissioners.