

ORIGINAL

Decision No. 9127

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

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In the Matter of the Application of)
SOUTHERN COUNTIES GAS COMPANY OF)
CALIFORNIA for authority to increase)
its rates for artificial gas supplied)
to the City of Santa Barbara and un-)
incorporated community in the County)
of Santa Barbara.)

Supplemental
Application No. 5234

LeRoy M. Edwards, for Southern Counties
Gas Company of California.
W. P. Butcher, for the City of Santa
Barbara.

BRUNDIGE, Commissioner:

O P I N I O N

Southern Counties Gas Company of California, hereinafter referred to as applicant, has asked for authority to increase its rates for artificial gas supplied in the City of Santa Barbara and the unincorporated community in Santa Barbara County served by it. It further requests that the rates for this service be established upon the basis of the cost of oil in such a manner that without the expense or delay of a formal hearing the rates may be increased or decreased as the cost of oil rises or falls. In support of its request applicant alleges that the present rates established in Decision No. 7483

were based upon the cost of oil at \$2.22 per barrel; that due to a combined increase of freight charges and the price of oil the total cost of oil has been increased to \$2.46 per barrel f.o.b. Santa Barbara; that this increase in the cost of oil will necessitate an increase in rate of 6.57¢ per M cubic feet of gas sold.

In its petition applicant sets forth a schedule of rates which it urges will be required under the conditions existing at the time the petition was filed.

This supplemental application was filed August 19th, 1920. At that time the Joint Committee on Efficiency and Economy of Gas of the Railroad Commission of the State of California, who under the authority of the Railroad Commission has been conducting a series of tests at the gas plant in Santa Barbara, was contemplating a reduction of the heating value of the gas manufactured. This reduction in quality of gas was expected to effect a saving in the production costs sufficient to balance the increase in cost of oil mentioned by the Company in its application. A hearing was not then held. Upon subsequent appeal of the Company claiming that there were further increases in the cost of operation a hearing was held on March 28th, 1921 and evidence taken. At this hearing applicant introduced a comprehensive exhibit, setting forth certain data and discussions pertinent to the matter of rates and urged further that it be allowed a rate of return based upon the cost of service shown in its exhibit and sufficient to amortize its accrued deficit over a reasonable period; that the recent increase in State taxes be included in calculating taxes, and that data relative to the cost of money as submitted in Application No. 6068 be considered in evidence and the rate of return based thereon.

It was further requested that the Commission in fixing the rates prescribe the heating value of the gas to be served if different from the existing standard.

The City introduced four exhibits relative to the present cost of gas, the nature of gas service, and petitions protesting against any increase in rates.

It was stipulated that the Commission's Engineers would file a report of analysis of the Company's exhibits within twenty days after the hearing; that the City of Santa Barbara should have thirty days to file a reply to the applicant's exhibits; that exhibits in Application No. 6068 and in previous proceedings in Application No. 5234 be considered as evidence in this proceeding as well as other data before the Commission relevant to this proceeding, and that briefs be filed by attorneys upon the legal questions involved in the matter of a rate based upon the cost of oil and subject to automatic modification with the fluctuations of the cost of oil. It was requested that a report be made to the Commission of service conditions found at the addresses of each complainant testifying at the hearing. Such reports and briefs have been filed. This proceeding is, therefore, now ready for decision.

The present rates were established by Decision No. 7483 in the original application No. 5234 and became effective April 27th, 1920. They were expected to yield a gross revenue of \$1.44 per thousand, and provide, after depreciation, an 8% return upon a rate base of \$723,313.58. The estimates found reasonable for the year 1920 were an average of 5,080 consumers with gas sales of 207,050 M cubic feet, and the cost of oil at \$2.22 per barrel f.o.b. Santa Barbara.

The service rendered by the Company during the past year was the subject of testimony of several consumers. The greater part of the unsatisfactory service was due to obnoxious fumes from gas resulting from excessive amount of sulphur in the gas and causing serious discomfort and inconvenience to consumers. This sulphur was in the form commonly spoken of as "organic sulphur", consisting of sulphur compounds which cannot be readily removed from the gas. The gradual increase in the amount of these compounds in the gas was apparently due to the fact that the residuum oil which is used for gas manufacture had been subjected to greater distillation processes than formerly, or that the crude oil itself might actually have contained more sulphur. Studies are being made to find an economical method for the removal of "organic sulphur" from the gas, but for the present the only practical plan is to substitute for the gas making an oil of lower sulphur content.

To overcome the bad sulphur condition applicant has had to purchase oils of less sulphur content at a material increase in cost.

The rate base used in Decision No. 7283 was the historical reproduction cost of the operative properties as of December 31, 1919, to which was added an estimate of net additions and betterments for the first six months of 1920. The rate base to be used in this proceeding is the same historical reproduction cost as of December 31, 1919, to which has been added the actual net additions and betterments made during 1920 and an estimate of one-half of the amount that will be added in 1921. The total rate base and depreciation annuity used in this proceeding are shown in Table No. I:

TABLE NO. I

SOUTHERN COUNTIES GAS COMPANY

Santa Barbara District

SUMMARY OF HISTORICAL COST AND DEPRECIATION ANNUITY

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	<u>Historical Cost New</u>	<u>Annuity 6% S.F. Basis</u>
Organization and Franchise	\$ 670.00	
Land	7,385.77	\$
Production	267,237.00	4,716.24
Transmission	9,220.16	250.00
Distribution	426,026.37	13,426.16
Working Cash Capital, Materials & Supplies	<u>48,269.00</u>	
Total Rate Base	\$774,676.04	\$19,117.18

The actual sendout and sales of gas for 1920 were 280, 949 M cubic feet and 226,723 M cubic feet respectively. It has been estimated that the sendout for 1921 will be 295,680 M cubic feet and the sales 244,180 M cubic feet.

The estimated sales are based on the service of an average quality of gas of 540 B.T.U. per cubic foot as compared with the former standard of 570. Assistant Chief Engineer L. S. Ready of the Commission reports that during the coming year the average heat content of gas produced at the plant under the Committee's tests will be approximately that quality.

The following statement of expenses, revenue and net return under present rates as set forth in Table No. II, has been compiled after a careful study of the evidence submitted. In preparing the estimate of operating expenses, consideration has been given to reduction of wages at present in effect and

also to the increased cost of oil. The price of oil obtaining at the time of filing this application was \$2.46 per barrel. However, since that time applicant has been obliged to pay an increased price for oil of low sulphur content, which is required in order to overcome the serious trouble from obnoxious sulphur fumes which have previously existed. The estimated average cost of this quality of oil at the time of the hearing was \$2.79 per barrel, but since the submission of this matter there has been a reduction in the price of 25 cents per barrel, which has been taken account of herein.

TABLE NO. II

SOUTHERN COUNTIES GAS COMPANY

SUMMARY OF OPERATING STATISTICS, REVENUE AND EXPENSES

ESTIMATED FOR YEAR 1921 UNDER PRESENT RATES

SANTA BARBARA DISTRICT

Cost of Oil per Barrel	\$ 2.54
Gas Sales - M cu.ft.	244,280
Average Revenue per M (Pres. Rate)	\$ 1.4095
Gross Revenue from Gas Sales	\$344,292.00
Revenue - Other	3,450.00
Total Revenue	<u>\$347,744.00</u>
Production Expense - Oil	\$153,797.00
" " - Other	41,340.00
Transmission "	3,700.00
Distribution "	27,960.00
Commercial "	18,645.00
General "	16,787.00
State and Franchise Tax	24,693.00
Uncollectible Accounts	695.00
Total Operating Expenses	<u>\$287,617.00</u>
Depreciation	19,117.00
TOTAL	<u>\$306,734.00</u>
Net Revenue	\$ 41,010.00
Rate of Return	5.29%

The rates proposed in applicant's petition contemplated an average increase of 6.57 cents per thousand cubic feet. Since the filing of the application other factors have arisen which seriously affect the cost of service. The net additional increase in the cost of oil is 8 cents per barrel, which results in a further increase in the cost of gas of 2 cents per thousand cubic feet. State taxes have increased from 5.5% to 7.5% of the gross revenue, thereby further increasing the cost of gas by 2.5 cents, or a total increase for both oil and taxes of 4.5 cents per thousand cubic feet sold.

Applicant urges that it be granted a greater rate of return than 8% owing to the higher cost of the money which it has invested in the property since the same was purchased. The cost of money invested during the past three years has been considerably in excess of that prior thereto. In view of this fact the Commission has found it reasonable in a number of cases to authorize a higher rate of return than the 8% found reasonable prior to the war period. This has been justified especially in view of the necessity of continued extension of system by the utilities. On the basis of allowing applicant an 8% return on the property invested prior to 1919 and 9% upon additions since that date, I find that a reasonable return to applicant where good service is rendered should be eight and one-quarter percent ($8\frac{1}{4}\%$).

The following table shows the operating expenses, revenue and return upon which the rates herein established are calculated:

TABLE NO. III

SOUTHERN COUNTIES GAS COMPANY

SUMMARY OF OPERATING STATISTICS, EXPENSES AND REVENUE

SHOWING RATE PER THOUSAND CUBIC FEET REQUIRED

ESTIMATED FOR YEAR 1921

SANTA BARBARA DISTRICT

Cost of Oil per Barrel	‡ 2.54
Operating Expenses	\$262,229.00
Taxes, State and Franchise	26,699.00
" Normal Federal Income	3,277.00
Uncollectible Accounts	<u>752.00</u>
<u>Total Expenses</u>	\$292,957.00
Depreciation	<u>19,117.00</u>
<u>Total Operating Charges</u>	‡312,074.00
Rate Base	\$774,676.04
Net Revenue Required for 8½% Return	<u>63,911.00</u>
Total Gross Revenue Required	\$375,985.00
Miscellaneous Revenue	<u>3,450.00</u>
Revenue Required from Gas Sales	‡372,535.00
Estimated Gas Sales - M cu.ft.	244,280
Average Rate Required per M cu.ft.	\$1.526

Applicant has requested a rate sufficient to amortize the accrued deficit which it has incurred since its application was filed. It has also asked that rates be fixed in such a manner as to vary with the price of oil, thus eliminating the necessity of hearings in case of further change in the price of oil and the resulting delay in increase or decrease in rates necessarily following with the practice of the Commission heretofore in effect.

I can not agree with applicant that it should be reimbursed for the deficit below the return herein found reasonable which was incurred since the application was filed in August, 1920. In view of the service rendered by applicant, due to the sulphur conditions existing during the past winter and applicant's attitude relative to compliance with the Commission's service order as indicated by its attorney in this proceeding, I must conclude that no reimbursement should be authorized.

The price paid for oil by applicant and other gas utilities has been increased and decreased at intervals during the past several years such as to materially change the operating expenses of the utility, with the result that numerous proceedings have had to be held for the modification of rates. The last change in price of oil, which apparently was unexpected even by a number of the oil companies themselves, amounted to a reduction of 25 cents per barrel. The cost of oil constitutes approximately 40% of the total cost of service and a variation in the price of oil such as the last reduction of 25 cents per barrel represents a change in the cost of service of between 7 and 8 cents per 1,000 cu. ft. A form of rate which will readily reflect the change in the cost of oil to applicant will be of equal advantage and protection to the company and the consumers and should eliminate considerable of the cost of hearings, which are now so frequently required and make more stable the operations of the utility.

The question of the fixing of a rate which would vary with the price of oil has been given careful consideration in connection with this proceeding and in connection with several other

gas proceedings and it has been found reasonable to set forth a procedure which will make possible a variation in the rates for gas upon a variation in the price of oil without the necessity of a hearing. An analysis of the operations of applicant's plant shows that the cost of gas sold varies at the rate of approximately 2.6 cents per 1000 cu. ft. with each 10 cents change in price of oil. The rates herein fixed will include a clause providing for this change.

The gas service rendered by applicant during the past winter has been the subject of considerable complaint, the chief cause of such complaint being the excessive sulphur in the gas. At the present time this condition has been eliminated by the obtaining of an oil of lower sulphur content. Altho in general the sulphur content of the gas served by applicant has been below the maximum limit prescribed by the Commission's General Order, it is apparent that applicant should and must maintain a quality of gas of considerably lower sulphur content in order that a satisfactory service be rendered.

A careful inspection of the service of applicant in the Santa Barbara district was made by the Commission's gas engineers, from which it appears that in general applicant has complied with the requirements as set forth in the Commission's General Order No. 58. The company has, however, failed in several respects to comply with the Commission's regulations relative to service matters. From the statement of applicant's attorney it appears that applicant has regarded these as insignificant and has taken no active steps to comply with the same. It is evident that applicant has not appreciated the position of the Commission relative to gas service requirements, nor has it in this instance taken as broad a view of the spirit of service and its relation to the consumers as this Commission considers it should. The Commission will insist upon full compliance with the regulations in every respect, both technically and in the spirit of such regulations. Ap-

plicant has, however, recently taken steps toward the more complete compliance with the Commission's rules governing gas service. For this reason and because of certain circumstances which have already caused considerable delay in this proceeding, I am recommending that the rates as set forth in the following Order be made effective without further delay.

I recommend the following form of Order:

ORDER

Southern Counties Gas Company having applied for an order establishing the rates to be charged by it for artificial gas service in the City of Santa Barbara and the adjacent unincorporated territory, a public hearing having been held and the matter being submitted and ready for decision,

The Railroad Commission of the State of California hereby finds as a fact that the existing rates of Southern Counties Gas Company for gas service in Santa Barbara and vicinity are unjust and unreasonable and that the rates herein established are just and reasonable.

Basing its order on the foregoing findings of fact and the other findings of fact as set forth in the Opinion preceding this Order,

IT IS HEREBY ORDERED that Southern Counties Gas Company be, and it is hereby, authorized to charge and collect for gas service rendered in the City of Santa Barbara and adjacent territory the following rates, based upon all meter readings taken on and after July 21, 1921:

SCHEDULE NO. 1.

GENERAL SERVICE:

Applicable to domestic and commercial service for lighting, heating and cooking, including restaurants, apartment houses, hotels, etc.

TERRITORY:

Applicable to the territory within the incorporated limits of the City of Santa Barbara.

RATE:

First	600	cu.ft.	or less,	per meter,	per mo.	\$1.00			
Next	4400	" "	per meter	per month	1.50	per	M. Cu. Ft.	
"	15000	" "	" "	" "	" "	1.45	" "	" "	" "
"	30000	" "	" "	" "	" "	1.40	" "	" "	" "
All over	50000	" "	" "	" "	" "	1.35	" "	" "	" "

Upon the approval of the Railroad Commission of the State of California, the above rates are subject to increase or decrease on the basis of 2.6¢ per 1000 cu. ft. for each 10 cents increase or decrease respectively in the cost of oil above or below the base cost of oil which base cost herein is \$2.54 per barrel at the company's plant. Change to be to the nearest cent.

SCHEDULE NO. 2.

GENERAL SERVICE:

Applicable to domestic and commercial service for lighting, heating and cooking, including restaurants, apartments houses, hotels, etc.

TERRITORY:

Applicable to that portion of Santa Barbara County outside the incorporated limits of the City of Santa Barbara served by Southern Counties Gas Company.

RATE:

First	600	cu.ft.	or less,	per meter,	per month	\$1.00			
Next	4400	" "	per meter	per month	1.75	per	M. Cu. Ft.	
"	15000	" "	" "	" "	" "	1.65	" "	" "	" "
"	30000	" "	" "	" "	" "	1.55	" "	" "	" "
All over	50000	" "	" "	" "	" "	1.45	" "	" "	" "

Upon the approval of the Railroad Commission of the State of California, the above rates are subject to increase or decrease on the basis of 2.6 cents per 1000 cu. ft. for each 10 cents increase or decrease respectively in the cost of oil above or below the

base cost of oil, which base cost herein is \$2.54 per barrel at the company's plant. Change to be to the nearest cent.

SCHEDULE NO. 3.

SPECIAL COMMERCIAL SERVICE:

Applicable to commercial service, lighting, heating and cooking, including restaurants, hotels, newspapers, etc.

TERRITORY:

Applicable to the territory within the incorporated limits of the City of Santa Barbara.

RATE:

Rate per 1000 cubic feet, per month.....	\$1.30
Minimum monthly charge, per meter.....	52.00

Upon the approval of the Railroad Commission of the State of California, the above rates are subject to increase or decrease on the basis of 2.6 cents per 1000 cu. ft. for each 10 cents increase or decrease respectively in the cost of oil above or below the base cost of oil, which base cost herein is \$2.54 per barrel at the Company's plant. Change to be to the nearest cent.

IT IS HEREBY FURTHER ORDERED, That in case of a reduction in the price of oil, Southern Counties Gas Company shall file within ten days thereafter an affidavit setting forth the new price of oil, and shall thereafter, upon supplemental order of the Commission in this proceeding, charge the reduced rates as determined under the schedule herein set forth.

IT IS HEREBY FURTHER ORDERED, That should at any time an increase in price of oil occur, applicant may, after filing affidavit of such increase and receiving a supplemental order from this Com-

mission so authorizing, charge the increase in rates as determined from an application of the rates herein set forth.

IT IS HEREBY FURTHER ORDERED that Southern Counties Gas Company of California shall, within twenty days of the date of this order, file with the Railroad Commission the foregoing schedules of rates.

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 21st
day of June, 1921.

H. P. Rundegg
H. S. Loveland

J. H. [Signature]

Commissioners.