

Decision No. 9132

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

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In the Matter of the Application of)
LOS ANGELES GAS AND ELECTRIC CORPOR-) Application No. 6326
ATION for Increase in Rates Charged)
for Gas.)

Herbert J. Goudge, Paul Overton, S. W. Guthrie,
for Applicant.
Jess E. Stephens, Wm. P. Mealey, E. Z. Osborne, Jr.,
for City of Los Angeles.
James H. Howard, Roscoe R. Hess, for City of
Pasadena.
Kemp, Mitchell and Silverberg, for Chamber of
Commerce of the City of Los Angeles.
Ben W. Utter, for the County of Los Angeles.
C. C. Gould, for the City of Alhambra.
Thomas A. Berkebile, for the City of Monterey
Park.

BRUNDIGE and ROWELL, Commissioners:

O P I N I O N

Los Angeles Gas and Electric Corporation, applicant herein, asks authority to increase its rates and charges for gas alleging that since the establishment of the present rates as authorized by Decision No. 6139 (Opinions and Orders of the Railroad Commission of the State of California Vol. 16, page 4781) the costs of gas manufacture and distribution and the cost of money have increased materially; that these increases have been wholly beyond the control of applicant and that there

appears little probability of a reduction in any of these costs in the near future; that the cost of crude oil and natural gas has advanced materially since applicant's rates were last established and it is now impossible to obtain contracts for the purchase of oil at fixed prices as heretofore; that the market price for oil has increased to \$2.00 per barrel, an increase of 40 cents over the former price of \$1.60 per barrel. Applicant further alleges that it has been necessary to make substantial increases in the rates of wages of its employees, thereby contributing largely to higher operating expenses; that taxes have been increased and that large additional investments are being made by it for new equipment and enlargement of its facilities in order that it may render full and adequate service to all consumers. Applicant prays that the Railroad Commission make the necessary investigation and thereupon establish such rates as it shall find just and reasonable.

Evidence submitted in this proceeding consisted of exhibits and testimony presented by applicant's Comptroller, Mr. W. E. Houghton, and its Engineer, Mr. J. E. Barker, exhibits and testimony relative to applicant's operations presented by the Commission's Engineer E. L. Masser, who has been supervising natural gas operations in Los Angeles District during the past winter, a report by the Commission's Department of Finance and Accounts of applicant's investment and operating costs, and by testimony of E. Z. Osborne, Jr., Chief Engineer of the Board of Public Utilities, who submitted exhibits regarding applicant's operating expenses and revenues. It was further stipulated that the decision and testimony in Application No. 1830 and

subsequent rate proceedings by applicant and its Annual Reports and special reports filed with the Commission be considered in evidence. Briefs have been filed by the City of Los Angeles and the City of Pasadena dealing with the evidence and request herein. The matter has been submitted and is now ready for decision.

. Since the submission of this application the Standard Oil Company of California has made effective a reduction of 25 cents per barrel in the prices of various grades of fuel oil. This price revision has also been accepted by other oil companies and applicant is therefore now purchasing oil at a lower rate than obtained at the time the case was submitted. A communication has been filed by applicant in regard to the reduction in the price of oil and it has been agreed that this fact might be considered in evidence.

There is before this Commission at the present time an application by Midway Gas Company for increase in rates for natural gas sold by it, a large portion of which is purchased by Los Angeles Gas and Electric Corporation. However, due to the pressing need of applicant for relief from continuing losses it appears necessary that this proceeding be decided upon the existing costs of natural gas.

Applicant is engaged in supplying gas service to the major portion of Los Angeles City, and also to the cities, towns and unincorporated territory of Pasadena, South Pasadena, Alhambra, San Gabriel, Inglewood, Huntington Park, Eagle Rock, San Marino, Vernon, Watts, Monterey Park and territory adjacent to the above. The standard quality of gas to be supplied by applicant was established a number of years ago at 815 B.T.U. per cubic foot, being for the service of "mixed gas" composed

of approximately equal parts of natural and artificial gas.

During the last two years the increase in gas sales by applicant has been phenomenal. In the year 1918 total sales amounted to 4,837,428 M cubic feet, in 1919 ~~xxxx~~ to 5,785,557 M cubic feet, and for 1920 to 7,196,406 M cubic feet. Accompanying these large increases there has been an even more exaggerated peak load condition. In December 1918 the peak day sendout equalled 32,000,000 cubic feet. January a year later this figure increased to more than 37,000,000 cubic feet and on January 11th, 1921 a peak day sendout of 52,300,000 cubic feet was experienced. These tremendous winter demands have made necessary the construction and installation of extremely large gas generating and compressing facilities, together with large pressure reinforcing lines. Applicant is at the present time reconstructing its plant and during the next year will complete the largest artificial gas generating plant and facilities in the State of California. In view of this a considerable change in the investment and operations may be expected.

The consideration of this rate application naturally divides itself into the following sub-divisions:

1. Capital
2. Rate of Return
3. Depreciation - Amount and Interest
4. Sales and Revenue under existing rates and the present quality of service of 815 B.T.U.
5. Gas Service:
 - Service rendered
 - Operating conditions
 - Need of uniform gas quality
6. Gas Quality to be Served
7. Operating Expenses for Year ending June 30, 1922
8. Total Cost of Service.
9. Rates.

Capital:

In this proceeding it is necessary to give special consideration to the matter of invested capital, inasmuch as applicant is now engaged in such an extensive program of plant enlargement. During the year 1921 it is estimated that in excess of \$5,350,000 will be expended on this work. Applicant estimates that its average operative investment for the year ending March 31, 1922, on which it requests that it earn a fair return, will be \$20,863,258. This amount is comparable with the company's estimate of the average operative investment for the year 1920 of \$15,151,986, showing an increase of approximately \$5,700,000, or 37%, during a period of slightly over 12 months.

Applicant has taken as its basis of arriving at the above estimates the rate base set forth in the Commission's Decision No. 6139 in Application No. 4009, to which it has added the actual additions and betterments to December 31, 1920 and the estimated additions to October 1, 1921. Changes have been made by applicant in the amount estimated for materials and supplies and working cash capital to account for increase in the amount of business and the amount of materials and supplies required on hand.

Mr. E. L. Masser, Assistant Engineer of the Commission, submitted an estimate of the operative investment to be considered as an average for the year ending June 30, 1922 totaling \$19,963,311.

In view of the fact that the rates to be fixed herein will not become effective until practically the first of July 1921, it appears advisable to estimate the investment, operating expenses, statistics and return for the year commencing on that date.

From an analysis of the evidence it appears that all of the property listed in applicant's exhibit will not be operative, on the average, for the period considered altho probably the entire amount estimated by applicant will have been expended by October 1st, 1921. The estimate submitted by Mr. Maseer should on the other hand be increased to cover estimated interest during construction not capitalized and additional allowance for materials and supplies, because of the greater amount of oil which under the operating conditions as herein modified, it appears should be allowed in determining the investment in necessary supplies to be carried. After careful analysis of the evidence it would appear that the reasonable operative investment to be considered as a rate base for the 12 months commencing July 1st, 1921 is the sum of \$20,164,933. Table No. I herein sets forth by general accounts the investment in operative property as of January 1st, 1921, the estimated net operative additions to January 1st, 1922 and the operative investment to be used herein as a rate base as of January 1st, 1922, together with the estimated depreciation annuity to be allowed for the period in question.

TABLE NO. I

LOS ANGELES GAS AND ELECTRIC CORPORATION

SUMMARY OF RATE BASE
GAS PROPERTIES

	Total Invest- ment as of Jan. 1, 1921	Estimated Net Opera- tive Addi- tions to Jan.1,1922	Estimated Rate Base as of January 1, 1922	Depreciation Rate	Annuity
<u>Intangibles</u>					
Organization	\$20,000.00		\$20,000		
Franchise	6,224.76		6,224		
Total Intangibles	<u>26,224.76</u>		<u>26,224</u>		
<u>Production Capital</u>					
Lands	374,786.26	39,893	414,679		
Buildings	355,465.18	224,540	580,005	.01063	6,165
Holdings	1,110,360.17	19,310	1,129,672	.00646	7,298
Furnaces, etc.	236,475.32	150,633	397,108	.01823	7,239
Generators	552,592.82	441,870	994,462	.01358	13,505
Purifiers	227,519.51	302,305	529,824	.01358	7,195
Water Gas Sets	22,388.00	- 22,388*			
Accessories	1,329,008.43	1,189,650	2,518,658	.01823	45,915
Total Production	<u>4,208,595.69</u>	<u>2,345,815</u>	<u>6,554,408</u>		
<u>Distribution Capital</u>					
Lands	18,524.31	63,332	81,856		
Mains	6,890,959.44	1,110,200	8,001,159	.00995	79,612
Services	1,886,099.36	233,760	2,119,859	.03499	74,174
Meters	1,478,824.50	140,990	1,619,859	.03416	55,333
Regulators	213,497.67	27,440	240,937	.02718	6,549
Miscellaneous	32,345.31	4,365	36,710	.07587	2,785
Total Distribution	<u>10,520,250.59</u>	<u>1,580,087</u>	<u>12,100,335</u>		
<u>General Capital</u>					
Lands	69,883.88		69,883		
General Structures	136,746.54	65,045	201,791	.00363	733
General Office Equip.	90,661.86	6,448	97,109)		
General Shop Equip.	2,305.28	1,421	3,726)	.10046	34,127
Garage Equip.	136,075.88	41,540	177,615)		
Tools	61,257.41		61,257)		
Total General	<u>\$ 496,930.85</u>	<u>114,454</u>	<u>611,381</u>		
<u>TOTAL</u>	\$15,252,001.89	\$4,040,356	\$19,292,348		\$340,630
Materials & Supplies			572,250		
Working Cash Capital			<u>300,335</u>		
<u>TOTAL FOR RATE BASE</u>			\$20,164,933		

* Retirement.

As set forth above, the depreciation annuity computed on a 6% sinking fund basis for the year in question has been estimated at \$340,630. This amount should be allowed as part of the operating expenses of the company. On the sinking fund depreciation basis, where a return is allowed upon the investment in the properties, it is essential that applicant should set aside out of its net earnings to its depreciation reserve 6% upon the accrued depreciation to date. In the Commission's Exhibit No. 1 there is set forth an estimate of the total accruals to January 1st, 1921 of \$3,242,873. Applicant has in the past set aside in its depreciation reserve an amount equal or greater than the annuity found reasonable plus interest upon the accrued depreciation. It should in the future continue to set aside out of its net return an amount equal to 6% upon the accrued depreciation, or, for the year 1921, the sum of \$194,560.

Applicant requests in this proceeding that it be granted rates sufficient to return to it 8% upon all the capital invested with the exception of the amount of \$2,800,000, procured for financing of a part of the recent additions and betterments, upon which it asks a 9% return. This additional capital was obtained thru the sale of bonds at a cost of money of practically 9%. From consideration of the cost of money to applicant and the rate of return heretofore found reasonable, and which has been found reasonable in similar instances, the request of applicant as to the rate of return is found reasonable.

Sales and Revenue under Existing Rates:

The gas sales, revenue, operating expenses and net return of Los Angeles Gas and Electric Corporation for the years

1919 and 1920 are set forth in the following Table No. II:

TABLE NO. II

LOS ANGELES GAS AND ELECTRIC CORPORATION

SUMMARY OF GAS OPERATIONS

	<u>Year 1919</u>	<u>Year 1920</u>
Quality of Gas - B.T.U.	809	806
Sendout M cu.ft.	6,418,551	7,854,799
Sales " "	5,785,557	7,196,406
Average Number of Consumers	144,229	156,799
<u>Revenue</u>		
Gas Sales	\$4,228,940	\$5,301,834
Briquets	172,269	181,590
Miscellaneous	560	22,152
Total	<u>\$4,401,769</u>	<u>\$5,505,577</u>
<u>Expenses:</u>		
Production	\$1,716,872	\$2,453,506
Distribution	196,519	295,539
Commercial	325,269	420,079
General	187,422	273,670
Briquet	132,975	161,217
Uncollectible Bills	21,786	22,108
Taxes	439,434	442,309
Depreciation	210,676	229,718
Total	<u>\$3,230,953</u>	<u>\$4,298,147</u>
Net for Return	\$1,160,816	\$1,207,429
Rate Base	\$13,971,705	\$15,211,534
Percent of Return	8.31%	7.93%

During these two years the average quality of the gas supplied, as shown by the records of the company, was 809 and 806 B.T.U. per cubic foot respectively.

Applicant submitted an estimate of the sales, revenues, expenses and rate of return which would be received un-

der existing rates and serving as near as possible the quality of gas in accordance with the standard of 815 B.T.U. heretofore fixed. This estimate was based upon a price of oil of \$2.00 per barrel, which price was in effect at the time the proceeding was heard. If the present reduced price of oil continues and applicant's estimate be revised on the basis of \$1.75 price of oil for the entire year, a reduction in operating expenses of \$321,750 will be made in the above estimate for oil and taxes. The following Table No. III sets forth applicant's estimate for the year ending March 31st, 1922:

TABLE NO. III

LOS ANGELES GAS AND ELECTRIC CORPORATION

ESTIMATES OF OPERATIONS

For Year Ending March 31, 1922

Based on Applicant's Estimate of
Revenue Required, Rate Base and Reasonable Return

Oil Price \$2.00 per Barrel

Average Quality of Gas	777 B.T.U.
Sendout M cu.ft.	10,221,962
Sales " "	9,097,545
No. of Consumers Dec. 31, 1921	180,298
<u>Revenue</u>	
Gas Sales (Revenue at Existing Rates)	\$6,702,161
Briquets	250,000
Miscellaneous	22,000
Total	<u>\$6,974,161</u>
<u>Expenses</u>	
Production	\$3,852,022
Distribution	391,723
Commercial	493,919
General	322,702
Briquet	200,000
Uncollectible Bills	31,632
Taxes	584,064
Depreciation	334,806
Total	<u>\$5,210,868</u>
Rate Base	\$20,863,258

TABLE NO. III (Cont'd)

Net Return Requested	\$1,697,061
Additional Revenue Required	\$ 933,768
Increase Required per M cu.ft.	10.25 cents

Estimates were also presented by the Commission's engineers covering operating statistics, revenues and expenses for several qualities of mixed gas service and for natural gas service during such period of the year as possible and mixed gas during the remainder.

Gas Service:

The quality of gas service to be supplied by Los Angeles Gas and Electric Corporation and Southern California Gas Company has been the subject of considerable controversy and extended investigations, and several formal proceedings. The City of Los Angeles has for some time advocated the service of straight natural gas during the summer and the highest B.T.U. content of gas possible during the winter. The City of Los Angeles also urges that there are additional sources of natural gas supply not at present being brought into the City which, if made use of, would make possible an almost straight natural gas service thruout the year.

From a study of the additional supplies suggested by the City, such as the taking of gas away from field operations in several of the oil fields and supplanting the gas with oil, and also by the substitution of gas by oil in refineries of certain of the oil companies, it does not appear that these methods of obtaining gas are at present commercially feasible.

It is the desire of applicant that a uniform quality of gas service be supplied. During the past winter a serious

condition of gas service existed in Los Angeles and vicinity. Applicant was not able to maintain a uniform quality of gas and there resulted very unsatisfactory service conditions and a large number of complaints by consumers as to the quality of the gas served. In order to mitigate the difficulties during the past winter the Commission assigned one of its engineers to supervise the distribution of natural gas between the various gas utilities. Careful record was kept of the service conditions existing. Laboratory tests relative to the effect of varying qualities of gas were made by the Commission's engineers assisted by engineers of the Company and the City of Los Angeles, which indicated to a considerable extent that satisfactory service could not be obtained by fluctuation in the quality of gas from natural gas to mixed gas. Testimony of consumers and the testimony of representatives of one of the appliance companies corroborated this conclusion. To follow the suggestion of the City of Los Angeles would be to require the supplying of natural gas from six to seven months in the summer and then the necessity on the part of the company to supply a varying quality of gas thruout the remainder of the year. For satisfactory service, in general, it would be necessary to adjust appliances at least twice each year, an impossible thing to do when it is considered that there are practically 200,000 consumers on the systems of applicant and Southern California Gas Company. It has been the observation of the Commission's engineers that it is not practicable for consumers to adjust their own appliances.

The use of gas for cooking and heating purposes in Los Angeles is more extensive than in practically any other city in California. Many houses are constructed without equipment for the use of other fuels and it is of vital importance

that a satisfactory quality of gas be supplied even tho the cost per thousand cubic feet delivered may be slightly higher. We are convinced that the plan suggested by the City of Los Angeles is not advisable; that it is more important that a uniform quality of gas be supplied than an apparent saving be shown thru the supplying of a widely varying quality of gas; that the consumers will obtain greater satisfaction and greater efficiency and a resulting economy thru the supplying of a uniform quality rather than a varying quality of gas, which at best would be far from satisfactory.

During the past year the amount of natural gas available to applicant has decreased in relation to its actual requirements, due to the tremendous increase in gas sendouts. Peak loads during the past winter have been of such magnitude that it has been wholly impossible to maintain the established heating value standards. Because of this condition the Commission authorized a temporary reduction for the past winter from 815 B.T.U. to 760 B.T.U. per cubic foot. The experience gained from the Commission's supervisory work of gas conditions in Los Angeles has indicated very definitely the necessity for the establishment of a standard for gas quality which can be maintained. In making the determination of a new gas standard to be established, the fact must not be lost sight of, that since the delivery of large volumes of gas from the new Elk Hills Field, the quality of natural gas being delivered to applicant has dropped from about 1050 B.T.U. to approximately 970 B.T.U. per cubic foot. This condition obviously makes impossible the maintenance of as high a standard as was previously possible with the same percentage of natural gas in the commercial mixed.

gas supplied to applicant's consumers.

After a careful consideration of operating conditions, and requirements of the Los Angeles district, and probable amount of natural gas available to applicant, it appears to be impossible to maintain as high a heating value standard as the present 815 B.T.U. during the coming winter. It is the Commission's opinion that the highest practicable quality of gas service which can be maintained within reasonable limits for a period of more than one year should be put in effect. This would permit the proper adjustment of appliances to a setting which would be relatively permanent. Peak winter loads will obviously cause temporary drops in the heating value below the fixed standard. The standard, however, must not be established so high that these fluctuations below it during peak periods would result in generally unsatisfactory service because of the existing adjustment of gas appliances being unable to properly and efficiently utilize gas of the changed quality.

The present standard should be reduced to 750 B.T.U. per cubic foot, monthly average, as hereinafter ordered, with a maximum permissible fluctuation of 35 B.T.U. below and 35 B.T.U. above except in cases of serious emergencies caused by failure of natural gas supply. It is the intent of these limitations that deviations below the standard quality on a peak day of large gas sendouts shall not be compensated for by an equal increase above the standard on a warmer day of small sendout. It is the intent that the average quality of the total of all gas sent out shall comply with the standard established. This is an actual reduction of only 56 B.T.U. in the average quality as was supplied for the year 1920.

Applicant testified that it expects an increase of 15% in gas sales during the coming year. From January 1, 1919 to December 31, 1920 there has been an increase of 24,574 in the number of active meters. A study of present conditions in Los Angeles and vicinity indicates a continuance of this growth during the period herein considered, and estimates of operations have therefore been prepared with this condition in mind.

Probable gas sales have been estimated after an analysis of previous experience of applicant's operations, determining the average B.T.U. sales per active meter for each month of the past two years. From the total estimated B.T.U. sales, total gas requirements on a cubic foot basis were determined for several qualities of service in order that complete knowledge of all conditions be had, and also to assist in making possible the determination of the most advantageous standard to be established.

There is now being brought to Los Angeles an increased supply of natural gas by the Midway Gas Company. Computations herein have been based upon materially greater receipts of natural gas by applicant. The use of more natural gas for reforming will offset to a large extent other increased costs resulting from higher charges for wages and oil and the natural gas itself.

Table No. 4 sets forth a revised estimate of applicant's operations for the year ending June 30, 1922. Operating expenses have been determined after a careful analysis of the testimony and evidence submitted in this proceeding. Applicant estimated that a very largely increased amount of oil would be required for its future needs. In view of the increased quantities of natural gas which will be delivered to Los Angeles by

the Midway Gas Company applicant can obtain a much greater volume of natural gas than it has received heretofore. The use of such additional natural gas will in a large measure tend to offset the increases of other operating expenses. Applicant should be able during the next year to obtain at least 7,935,000 M cubic feet of natural gas. With this quantity of natural gas it is estimated that 920,825 barrels of oil would be required for gas plant purposes for the production of the required amount of 750 B.T.U./^{gas} as compared with applicant's estimate for the same quality of gas of about 1,065,000 barrels. This would result in total net costs of \$1,611,445 for oil and \$1,428,850 for natural gas, which two items constitute 52½% of the total cost of service excluding interest charges. Reduction of gas quality, when using the natural gas reforming process, results in the necessity of increasing both the quantity of reformed gas and also of oil gas because of increased send-out. The cost per thousand cubic feet is reduced, however, about 2½ cents per M cubic feet with a reduction of the standard of 50 B.T.U.

In the estimate of reasonable operating expenses set forth in Table No. IV hereafter there has been allowed in the item of taxes, state taxes at the rate of 7½% upon the gross revenue for the preceding 12 months, normal Federal income tax, capital stock tax and City and County Franchise tax. Excess profit tax has not been allowed as this should properly be paid by applicant from its net return. Considerable difference exists between the estimates of the company and Mr. Masser as to certain of the operating expenses, especially production, operation and maintenance other than oil and gas. Certain modifications have been made in the estimates herein in view of

the modification in operations proposed.

With the proposed change of gas quality it will become necessary to make minor adjustments of a number of gas appliances. In addition to this applicant should also devote considerably more attention to the continued adjustment of consumers' appliances in order that more universal satisfaction be had of the gas service. This will require the maintenance of a crew of service men, with automobiles and equipment, who will be able to respond promptly to calls and make the necessary adjustment of stoves, heaters, furnaces, etc., especially during the winter period. With the maintenance of a uniform gas quality it is believed this adjustment work will not be found to require an unduly large amount of labor. Allowance of \$25,000 additional has herein been made for properly providing for service crews to make necessary adjustments of gas appliances.

TABLE NO. IV

LOS ANGELES GAS AND ELECTRIC CORPORATION

SUMMARY OF GAS OPERATIONS

Estimated for Year Ending June 30, 1922

Under Present Rates

Quality of Gas	750 B.T.U.	
Sendout M cu. ft.	10,820,000	
Gas Sales M cu. ft.	9,636,500	
Average Consumers	178,200	
<u>Gross Revenue (Present Rates)</u>		
Gas Sales @ \$.7367/mcf average	\$7,099,210	
Briquet Revenue	245,000	
Miscellaneous	22,000	\$7,366,210
<u>Operating Expenses</u>		
Production: Oil 920,825 bbls.	1,611,444	
Natural Gas 7,935,000 M cu.ft.	1,428,850	
Operations other than oil and gas	360,000	
Maintenance	132,500	
Briquet	225,000	
Total Production Expense		\$3,757,850
Distribution and Transmission Expense		370,000
Commercial		499,000
General		290,000
Taxes, Normal Federal Income		110,460
" Capital Stock Tax		8,610
" State Tax		480,000
Uncollectible Bills		29,500
<u>TOTAL OPERATING EXPENSE</u>		<u>\$5,545,420</u>
Depreciation		340,630
<u>TOTAL OPERATING CHARGES</u>		<u>\$5,886,050</u>
Net for Return		\$1,480,160
Rate Base		\$20,164,933
Reasonable Return on Rate Base		1,641,195
Deficit Below Reasonable Return		161,035

Table No. IV indicates that under existing conditions the rates for the year ending June 30, 1922, should be so increased as to yield Applicant additional revenue to the extent of \$161,000. This would provide a fair return upon the investment in case gas of 750 B.T.U. quality is served and the price of oil of \$1.75 per barrel continues. The cost of oil is a large part of the cost of gas even in the case of the mixed gas service rendered by Applicant. It is estimated that Applicant will sell during the coming year 9,636,500 M. cubic feet of "mixed gas", of which approximately 3,256,000 M. cubic feet will be oil gas, requiring 920,825 barrels of oil to produce. A change of 10 cents per barrel in the price of oil would result in a change in operating costs amounting to approximately 1.0¢ per thousand cubic feet. Changes in the price of oil have been frequent and in several instances not contemplated, with the result that changes in rates had to be made frequently and generally considerable delay occurred.

It is advisable to establish a procedure whereby changes in rates with changes in the price of oil may be made without the delay necessary with formal hearings. A study of the Public Utilities Act leads to the conclusion that the procedure herein followed, whereby the rates for gas will vary with the price of oil, will be in accordance therewith. We find that a change in the rate for gas of 1.0¢ per thousand cubic feet for each 10 cent change in the price of oil to be reasonable.

This application was filed with the Railroad Commission November 18, 1920. Applicant has submitted a statement showing that on January 1, 1921 to May 12, 1921 it had

purchased 622,922 barrels of oil at a price of \$2.00 per barrel. The rates which are now in effect on applicant's system were fixed on the basis of oil purchased at the price of \$1.60 per barrel. In view of the planned method of fixing rates to vary with the price of oil it is apparent that applicant will not in the future be in a position to recoup the loss in earnings resulting from the delay between an increase in the price of oil and an increase in rates. Under the former method of fixing rates which required a complete investigation, and where considerable delay occurred between the change in price of oil and either an increase or decrease in rates this reimbursement would be possible if further reductions in the price of oil occurred. Due to the lag in the time between the filing of this application and the effective date of this decision, applicant's cost of oil exceeded by approximately \$249,000 the cost based on the price of \$1.60 per barrel which is the basis of existing rates owing to the price of \$2.00 per barrel continuing from November 1920 to May 13th, 1921. The rates herein fixed are based upon a price of oil of \$1.75 to be varied 1.0¢ per thousand cubic feet for each 10 cent variation in the price of oil above or below that price. In view of these facts we are of the opinion that applicant is entitled to reimbursement for the cost of oil not heretofore covered in the rates as above specified, totaling \$249,000. Applicant will be authorized to charge and collect in addition to the rates herein fixed a charge of 3 cents per thousand cubic feet on all gas sold until such time as it has been reimbursed for the excess cost of oil purchased since the date of the filing of this application and not heretofore accounted for in rates, not to exceed \$249,000.

The City of Pasadena filed a brief with the Commission regarding Applicant's estimated operations, it being contended that Applicant largely over-estimated the quantity of oil required and under-estimated the probable quantity of natural gas which will be available to it, thereby adding excessively to gas production costs. These matters have been fully considered herein.

Further contention was made relative to the spreading of rates between Los Angeles City and the City of Pasadena, and also charges to be allowed for depreciation. Consideration of operating charges, in reference to these allegations, indicates that the City of Pasadena would not be obliged to bear an unfair proportion of them.

The Commission has investigated the actual peak winter demands of a number of Applicant's heating consumers. From this study it is apparent that many of these larger heating consumers demand a service of gas which actually costs Applicant considerably in excess of the price received for the gas sold. This results from the fact that much of the gas produced during peak periods is made wholly from oil and therefore exceeds the average cost of the mixed gas normally made. Further in order to render adequate service during peak loads, unduly large production, transmission and distribution facilities are required and the excess capacity of these is idle the major portion of the year, thereby increasing interest charges on this service.

In many eastern cities receiving natural gas which is used for heating purposes, it has been found necessary to resort to the extreme of charging more per thousand cubic feet

for gas sold in the large blocks than for the smaller quantities, in order to charge this class of consumer the reasonable cost of the service rendered. The rates herein will be modified to correctly charge for this service.

Applicant has made a special report regarding various classes of consumers and submitted testimony and exhibits indicating that an equal increase of rates applicable to consumers using gas in large quantities, for heating purposes for hotels, apartment houses, etc., and for other commercial purposes, would result in a loss of such business, and thereby require a greater increase of rates by about 5 cents per M. cubic feet in the smaller blocks of the schedules. This conclusion does not follow in our opinion when considering the smaller increase herein authorized.

The present rates in effect in the City of Los Angeles were established February 21, 1919, for an 815 B.T.U. mixed gas standard and are as follows:

First	5,000	cu.ft.	per	meter	per	month	...	75¢	per	M.
Next	5,000	"	"	"	"	"	...	70¢	"	"
Next	15,000	"	"	"	"	"	...	65¢	"	"
Next	25,000	"	"	"	"	"	...	60¢	"	"
All over	50,000	"	"	"	"	"	...	55¢	"	"

The rates in the outlying districts range from 5¢ to 15¢ per M. cubic feet higher in the first three blocks of the schedule. At the present time minimum charges for service are 50 cents per meter per month where only one meter is installed on the service line, or 35 cents per meter where four or more meters are placed at the same location on the one service. These minimum charges are under present conditions entirely inadequate to meet the expenses directly chargeable as consumer costs. A knowledge of conditions in Los Angeles and vicinity does not indicate that an unfair burden would be placed

upon any class of consumers because of an increase of these minimum charges. Consumers occupying apartment houses, where a number of meters are installed on the same service, would not in general be seriously affected by the increase of the minimum charge herein authorized.

Since the establishment of the present rates, and the districts to which they are applicable, there have been certain annexations to the City of Los Angeles, and it is now necessary to revise the limits of District No. 1 so as to include the St. Francis Addition and the Hill Addition, taken into the City by Ordinances Nos. 39715 N.S. and 40591 N.S. respectively.

We submit the following form of Order:

O R D E R

Los Angeles Gas & Electric Corporation having applied to the Railroad Commission for an order granting authority to increase its rates and charges for gas supplied to its consumers, 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 Los Angeles Gas & Electric Corporation insofar as they differ from the rates herein fixed, are not now just and reasonable rates, and that the rates herein established are just and reasonable rates for gas for domestic, commercial and industrial service.

Being its order upon the foregoing findings of fact and the findings of fact contained in the Opinion which precedes this Order,

IT IS HEREBY ORDERED that Los Angeles Gas and Electric Corporation be, and is hereby, authorized to charge and collect the following rates for gas for domestic and commercial purposes in its several districts, which rates shall be effective for all regular meter readings taken on and after the 1st day of August, 1921.

SCHEDULE NO. 1

GENERAL SERVICE

Applicable to Domestic and Commercial Service for Lighting, Heating and Cooking. Heating quality of gas 750 B.T.U. per cubic foot.

TERRITORY

Applicable to District No. 1 including territory as described under (6) "Description of Special Districts" of Preliminary Statement.

RATES

First	5,000	cu.ft.	per	meter	per	month...	75¢	per	M.	cu.ft.
Next	15,000	"	"	"	"	"	70¢	"	"	"
"	30,000	"	"	"	"	"	65¢	"	"	"
All over	50,000	"	"	"	"	"	60¢	"	"	"

The above rates are subject to increase or decrease on the basis of 1¢ per 1000 cubic feet for each 10 cent increase or decrease, respectively, in the cost of oil above or below the price of \$1.75 per barrel upon approval of the Railroad Commission of the State of California. Change to be to the nearest one cent.

MINIMUM CHARGE

- (1) Where four or more meters are served in one location on one service for flats and apartments 70¢ per meter per month.
- (2) For service other than stated under (1) 80¢ per meter per month.

SCHEDULE NO. 2

GENERAL SERVICE

Applicable to Domestic and Commercial service for Lighting, Heating and Cooking. Heating quality of gas 750 B.T.U. per cu. ft.

TERRITORY

Applicable to District No. 2 which includes the CITY OF PASADENA and the CITY OF SOUTH PASADENA.

RATES

First	5,000	cu.ft.	per	meter	per	month...	80¢	per	M.	cu.ft.
Next	15,000	"	"	"	"	"	70¢	"	"	"
"	30,000	"	"	"	"	"	65¢	"	"	"
All over	50,000	"	"	"	"	"	60¢	"	"	"

The above rates are subject to increase or decrease on the basis of 1¢ per 1000 cu. ft. for each 10 cent increase or decrease respectively in the cost of oil above or below the price of \$1.75 per barrel upon approval of the Railroad Commission of the State of California. Change to be to the nearest one cent.

MINIMUM CHARGE

- (1) Where four or more meters are served in the location on one service for flats or apartments 70¢ per meter per month.
- (2) For service other than stated under (1) 80¢ per meter per month.

SCHEDULE NO. 3

GENERAL SERVICE.

Applicable to Domestic and Commercial service for Lighting, Heating and Cooking. Heating quality of gas 750 B.T.U. per cu. ft.

TERRITORY

Applicable to District No. 3 which includes the CITY OF ALHAMBRA and the CITY OF HUNTINGTON PARK.

RATES

First	5,000	cu.ft.	per	meter	per	month...	85¢	per	M	cu.ft.
Next	15,000	"	"	"	"	"	75¢	"	"	"
"	30,000	"	"	"	"	"	65¢	"	"	"
All over	50,000	"	"	"	"	"	60¢	"	"	"

The above rates are subject to increase or decrease on the basis of 1¢ per 1000 cu. ft. for each 10 cent increase or decrease, respectively, in the cost of oil above or below the price of \$1.75 per barrel upon approval of the Railroad Commission of the State of California. Change to be to the nearest one cent.

MINIMUM CHARGE

- (1) Where four or more meters are served in one location on one service for flats and apartments 70¢ per meter per mo.
- (2) For service other than stated under (1) 80¢ per meter per month.

SCHEDULE NO. 4

GENERAL SERVICE

Applicable to Domestic and Commercial service for Lighting, Heating and Cooking. Heating quality of gas 750 B.T.U. per cu. ft.

TERRITORY

Applicable to District No. 4 which includes the following territory:-

All portions not included within Districts Nos. 1, 2 and 3, served by the Los Angeles Gas & Electric Corporation including incorporated territories of San Marino, San Gabriel, Eagle Rock, Vernon, Watts, Inglewood and Monterey Park and territory adjacent to the above.

RATE

First	5,000	cu.ft.	per	meter	per	month...	90¢	per	M	cu.ft.
Next	15,000	"	"	"	"	"	80¢	"	"	"
"	30,000	"	"	"	"	"	70¢	"	"	"
All over	50,000	"	"	"	"	"	60¢	"	"	"

The above rates are subject to increase or decrease on the basis of 1¢ per 1000 cu.ft. for each 10 cent increase or decrease respectively in the cost of oil above or below the price of \$1.75 per barrel upon approval of the Railroad Commission of the State of California. Change to be to the nearest one cent.

MINIMUM CHARGE

- (1) Where four or more meters are served in one location on one service for flats and apartments 70¢ per meter per month.
- (2) For service other than stated under (1) 80¢ per meter per month.

CLASS "A" INDUSTRIAL SERVICE 'LIMITED'

INDUSTRIAL SERVICE

Applicable to industrial service on existing mains having a delivery capacity in excess of the present requirements of consumers now served under domestic and commercial schedules. 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, etc. Heating quality of gas 750 B.T.U. per cu. ft.

TERRITORY

Applicable to all districts served by Los Angeles Gas and Electric Corporation.

RATE

Readiness to serve charge	\$10.00 per meter per mo.
Plus Consumption Charge	57¢ per 1000 cubic ft.

The above rates are subject to increase or decrease on the basis of 1¢ per 1000 cu. ft. for each 10 cent increase or decrease, respectively, in the cost of oil above or below the price of \$1.75 per barrel upon approval of the Railroad Commission of the State of California. Change to be to the nearest one cent.

SPECIAL CONDITIONS

Service under this schedule will be granted subject to the approval of the Railroad Commission of the State of California.

IT IS HEREBY FURTHER ORDERED that Los Angeles Gas and Electric Corporation be authorized to reduce the heating standard of gas served to 750 B.T.U. per cubic foot monthly average with a maximum variation of 35 B.T.U. per cubic foot above or below this average effective on and after July 1, 1921.

IT IS HEREBY FURTHER ORDERED that in case of a reduction in the price of oil Los Angeles Gas and Electric Corporation shall file within ten days thereafter, an affidavit setting forth the new price of oil paid, and shall thereafter, upon supplemental order of this Commission in this proceeding, charge the reduced rates as determined under the schedules 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 Commission so authorizing, charge the increase in rates as determined under the schedules herein set forth.

IT IS HEREBY FURTHER ORDERED that Los Angeles Gas and Electric Corporation be, and it is, hereby authorized to charge and collect in addition to the schedules of rates herein set forth, a charge of 3¢ per thousand cubic feet for all gas sold based on meter readings taken on and after the first day of August 1921 and until such time as it has collected thereunder the total sum of \$249,000 and not thereafter.

IT IS HEREBY FURTHER ORDERED THAT

1. Los Angeles Gas & Electric Corporation shall file with the Commission on or before August 1st, 1921 the schedules of rates and charges herein set forth.

2. Los Angeles Gas & Electric Corporation shall file with the Commission on or before September 20th, 1921, and on or before the 20th day of each month, a statement showing the total gas sales in cubic feet during the preceding calendar month as long as it is collecting the additional charge of 3¢ per 1,000 cubic feet herein authorized.

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, this 22nd day
of June, 1921.

H. P. Prundigg
H. S. ...

J. O. ...

Commissioners.