

Decision No. 9397

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

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In the Matter of the Investigation of)
the gas rates, service and operations)
of the COAST VALLEYS GAS AND ELECTRIC) Case No. 1611
COMPANY, on the Commission's Own Mo-)
tion.)

E. G. Jorgensen, City Attorney, for
Pacific Grove.
J. E. Andersen, City Attorney, for
Salinas.
James F. Pollard, for Coast Valleys
Gas and Electric Company.

LOVELAND, Commissioner:

O P I N I O N

This is an investigation on the Commission's own motion into the rates charged for gas and the gas service rendered by the Coast Valleys Gas and Electric Company, which manufactures gas and distributes it to consumers in the cities of Salinas, Monterey and Pacific Grove and contiguous territory.

The present rates for gas were established by this Commission in Decision No. 8937 in Application No. 6614, decided May 6th, 1921. The increase granted at that time was in

part based upon the price of fuel oil to the Company. Subsequent to that date, on May 13th, there was a general reduction in the field price of fuel oil of 25 cents per barrel. This investigation has been instituted to ascertain if the reduction of oil price has been made effective to the Coast Valleys Gas and Electric Company, and if so, to determine the reasonableness of the rates for the service rendered under the reduced cost of production.

A hearing was held in Salinas on July 8th, 1921, at which time evidence was submitted to the effect that the price of oil to Coast Valleys Gas and Electric Company has been reduced 25 cents per barrel for oil received after May 12th, 1921 and that the service conditions had not been changed materially since the hearing on Application No. 6614. It was stipulated that the records in evidence in Application No. 6614 may be considered in evidence in this proceeding.

The Company submitted data showing that it had in the past failed to realize the return which the Commission has from time to time found reasonable and urges that, in order to reimburse it for a portion of the accrued deficit, the present rates should be continued at least to the end of the calendar year 1921.

Application No. 6614 was filed March 3rd, 1921 and the rates prescribed in Decision No. 8937 were effective on meter readings taken on and after May 20th, 1921. This delay approximates two and one-half months. The present rates have been in effect three months since the reduction of 25 cents per barrel in the price of oil effective May 13th, 1921, and

before the reduction herein ordered becomes effective more than four months will have elapsed, which should fully compensate Coast Valleys Gas and Electric Company for increased oil cost during the period between the filing of Application No. 6614 and the increase of rates. As to the general reduced earning prior to May 20th, 1921, I see no reason to depart from the position taken by this Commission in similar gas cases recently decided, where compensation for previous reduced earnings was not granted. This especially in view of poor service conditions existing during part of that period.

The Company has filed a statement that a further reduction in the price of oil became effective on and after August 3rd, 1921. This reduction also amounts to 25 cents per barrel. The price of oil now paid is \$1.50 per barrel at Monterey and \$1.55 plus 32 cents freight at Salinas. The revised statement of the operating expenses based upon this price of oil is as follows:

STATEMENT OF GAS OPERATING EXPENSES
FOR COAST VALLEYS GAS AND ELECTRIC COMPANY
YEAR 1921

Production	
Oil	\$37,350
Other Expenses	30,000
Distribution Expense	9,330
Commercial	7,655
General	8,985
Uncollectible Bills	50
Taxes	9,428
Total Operating Expenses	<u>\$102,798</u>
Depreciation	<u>8,010</u>
TOTAL	<u>\$110,808</u>

The Company's claim for an addition of \$16,214 in the rate base to cover general capital chargeable to the gas department is justified. The Commission's allowance for working cash capital and materials and supplies heretofore allowed is reasonable. Accordingly the rate base has been revised as follows:

COAST VALLEYS GAS & ELECTRIC COMPANY

GAS PROPERTIES

Fixed Capital Sept. 30, 1919	\$211,426.16
Actual additions and betterments 9/30/19 to 12/31/19	2,913.63
Actual additions and betterments 12/31/19 to 12/31/20	50,659.71
Estimated additions and betterments 12/31/20 to 6/30/21	9,600.00
Total Fixed Capital	\$274,599.50
General Capital, Gas Department	16,214.00
Working Cash Capital	9,225.00
Materials & Supplies	10,612.00
Rate Base	\$310,650.00

annual

The gross revenue which it was estimated would result from the application of the present rates as set forth in Decision No. 8937 was \$147,600. After deducting the revised operating expenses and allowance for depreciation there remains \$36,792 for net return. On the basis of the historical cost of money as followed in determining the reasonable return to be allowed it appears that reasonable compensation to the utility in the form of return on investment is \$25,500. It is, therefore, reasonable to reduce the gross annual revenue by \$11,292, which reduction will amount to approximately 15 cents per thousand cubic feet of sales.

The service conditions have been materially improved during the past year and the Company states that it will con-

time until they are entirely satisfactory. There are, yet, several violations of the Commission's service standards and regulations which should be corrected as soon as possible.

The cost of oil is an important part of the expense of a gas utility such as Coast Valleys Gas and Electric Company. Material changes in the price of oil either upward or downward effect the earning of the utility and the reasonableness of the rates. A change of 10¢ per barrel in the price of oil changes the cost of gas to applicant approximately 3¢ per 1000 cubic feet sold. In order that further hearing will not be necessary upon change in oil prices the rates herein found reasonable will be made to vary with the price of oil.

I recommend the following form of Order:

ORDER

This Commission having instituted an investigation on its own motion into the gas rates, service and operations of the Coast Valleys Gas and Electric Company, an investigation having been made, a hearing having been held and the matter submitted,

The Railroad Commission hereby finds as a fact that the rates heretofore fixed in Decision No. 8937 should be modified to conform with the schedules herein set forth, and that the rates herein set forth are just and reasonable rates to be charged for gas service by the Coast Valleys Gas and Electric Company.

Basing its Order on the foregoing finding of fact and the findings of fact contained in the Opinion which pre-

cedes this Order.

IT IS HEREBY ORDERED that Coast Valleys Gas and Electric Company charge and collect for gas service rendered by it, effective in the communities as therein set forth respectively, based on all regular meter readings taken on and after the first day of October, 1921, the following schedules of rates:

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 mo.	\$1.10
Next 2,000 cu.ft. per meter per month	\$1.85 per M cu.ft.
" 2,500 " " " " "	1.60 " " "
" 5,000 " " " " "	1.45 " " "
" 5,000 " " " " "	1.30 " " "
All over 15,000 " " " " "	1.20 " " "

The above rates are subject to increase or decrease on the basis of 3 cents per 1,000 cu.ft. for each 10 cents increase or decrease respectively in the price of oil above or below the price of \$1.50 per barrel upon approval of the Railroad Commission of the State of California. Change to be to the nearest one cent.

SCHEDULE "B"

DOMESTIC AND COMMERCIAL GAS SERVICE

SCHEDULE "B" (Cont'd)

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.

RATE:

First 500 cu.ft. or less per meter per mo.	\$1.10							
Next 2,000 cu.ft. per meter per month	2.00	per	M	cu.ft.				
" 2,500 " " " " " "	1.80	"	"	"				
" 5,000 " " " " " "	1.60	"	"	"				
" 5,000 " " " " " "	1.40	"	"	"				
All over 15,000 " " " " " "	1.30	"	"	"				

The above rates are subject to increase or decrease on the basis of 3 cents per 1,000 cu.ft. for each 10 cents increase or decrease respectively in the price of oil above or below the price of \$1.87 per barrel upon approval of the Railroad Commission of the State of California. Change to be to the nearest one cent.

IT IS HEREBY FURTHER ORDERED that in case of a reduction in the price of oil below the prices set forth in the Opinion herein, the Coast Valleys Gas and Electric Company shall file within 10 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 schedules herein set forth.

IT IS HEREBY FURTHER ORDERED that, should at any time an increase in price of oil occur, Coast Valleys Gas and Electric Company may, after filing affidavit of such increase and receiving a supplemental order from this Commission so authorizing, charge the increase in rates as determined from an

application of the rates herein set forth.

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 of rates 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

23d day of August, 1921.

H. J. Brundage
H. J. Brundage
James Martin
Charles H. Brown
J. J. Connelley
Commissioners.