

ORIGINAL

DECISION NO. 9404

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

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In the Matter of the Application)
of Southern California Gas Company)
to increase rates for its service)
in Riverside and San Bernardino)
Counties.)

Application No. 5903

and

City of Riverside a Municipal)
Corporation -)
Plaintiff.)
vs.)
Southern California Gas Company)
a Corporation -)
Defendant.)

Case No. 1407

Jared How for Southern California Gas Company,

Wm. Guthrie, City Attorney)
Jerome B. Kavanaugh) for City of San
Bernardino,

G. A. French)
M. Estadillo, City Attorney) for City of Riverside,

W. S. McLab for Citrus Belt Gas Company.

BRUNDIGE, Commissioner.

O P I N I O N

Case No. 1407 is a complaint by the City of Riverside against Southern California Gas Company in which it is alleged that the rates charged by that Company in Riverside for natural gas are excessive and that the service rendered by it is unsatisfactory. Application No. 5903 is a petition

by Southern California Gas Company for authority to increase its rates for gas service in its Riverside and San Bernardino districts. These two matters were consolidated for hearing and decision, inasmuch as the distributing systems and business of Southern California Gas Company are so interconnected and related throughout the whole Riverside-San Bernardino territory.

Southern California Gas Company, hereinafter referred to as Gas Company or Applicant, alleges that its actual operating expenses were greater than estimated by the Commission when the present rates were determined; that because of this and other conditions beyond its control Applicant has failed to earn a reasonable return upon a fair value of its properties; that since October 13, 1919, Applicant has been supplying natural gas in its Riverside and San Bernardino districts, and that this high heating value gas, in displacing artificial gas, has materially reduced its sales in cubic feet and its revenue.

Extended hearings in these proceedings were held in Riverside and in Los Angeles and the matter was thereupon submitted.

Citrus Belt Gas Company, a utility operating in San Bernardino and Colton, and distributing artificial gas in competition with Southern California Gas Company, intervened in this proceeding asking that the Railroad Commission require the Southern California Gas Company to sell to it, at wholesale, a supply of natural gas which it believed could be procured at a cheaper price than artificial gas could be produced, and thereby provide its consumers with a gas of quality equal

to that delivered by the Southern California Gas Company. However, since the submission of this matter an agreement has been entered into between Citrus Belt Gas Company and Southern California Gas Company for the purchase of the former's properties by the latter Company. This agreement for purchase has already been approved by the Railroad Commission (Decision No. 9238 in Application No. 6917, dated July 15th, 1921). The purchase of the Citrus Belt properties eliminates the question raised by that Company and makes unnecessary further consideration of this phase of the proceeding.

The complaint of the City of Riverside alleges that Southern California Gas Company has been supplying natural gas procured from natural sources without any expense for manufacture, at rates previously charged for artificial gas, which is claimed to be unjust and unreasonable. It is further alleged that the quality of gas supplied is variable and unsatisfactory and that the service rendered is likewise unsatisfactory. Plaintiff prays that the Railroad Commission order that a hearing be held and ascertain and fix just and reasonable rates for gas and standards for service.

When natural gas service was commenced in this locality considerable annoyance was experienced, due to the changed gas quality. Applicant, however, maintained the necessary crews to adjust free of charge gas stoves and other appliances so that they would operate satisfactorily with natural gas. The City Attorney of Riverside stated at a hearing of this matter that the present gas service conditions are satisfactory, therefore this phase of the complaint is now removed.

Southern California Gas Company had, prior to October 13, 1919, operated an artificial gas system in the Cities of Riverside and San Bernardino and contiguous territory. Gas was generated at a central plant located at Colton and distributed from there under high pressure. During the fall of 1918 an 8 inch transmission line was laid from Chino to Colton, a distance of about 22 miles, and natural gas purchased from Southern Counties Gas Company was introduced into its system, supplanting almost completely, except during the winter period, the artificial gas formerly produced. The introduction of natural gas into these districts has provided consumers with a gas of much higher heating value than was previously obtained. This has resulted in a reduction of the total cubic foot sales by Applicant and in the cost of service to gas consumers. This reduction in sales has been the cause, very largely, of the reduction of Applicant's revenue, both gross and net, from these districts. During the past year Applicant's operating costs have increased materially and the percentage of return upon its investment has correspondingly decreased.

In this proceeding evidence was introduced by Mr. Wm. Guthrie, City Attorney of San Bernardino, to indicate that the rate base fixed by this Commission in its Decision No. 5337, in Application No. 1853, (Opinions and Orders of the Railroad Commission of the State of California, Vol. 15, Page 608), was excessive and considerably higher than the investment as shown by the Company's books. It was urged by Mr. Guthrie that the appraisal of operative property included allowances for gas arcs and an unreasonable amount of real estate, and that consideration had not previously been given to

the evidence of the value of the gas properties as found by the Superior Court of San Bernardino in 1913.

It was alleged that the Commission's valuation of the properties used in its findings in Application No. 1853 was \$100,000 more than was actually set up on the Company's books. It was further urged that consideration should be given to an appraisal made by Mr. Barrett for J. G. White Company; a copy of this appraisal, which was introduced in the case before the Superior Court of San Bernardino County in 1913, was included in evidence in this proceeding. A study of this valuation shows that it was of a very general character, there apparently having been no detailed inventory of the property made nor a careful determination of the cost of construction. A study of the records of the Company and of this Commission shows that the Commission's former appraisal included approximately nine miles of 2-inch main which cannot at this time be accounted for. I find that the Commission's previous valuation should be corrected by the deduction of this nine miles of 2-inch main.

I have had a thorough examination made of the records of the Commission and also an investigation into the records of the Company and of the value of certain other of Applicant's properties which have been brought into question to determine the reasonable historical reproduction cost of the properties of the Southern California Gas Company used in serving San Bernardino and Riverside. I find that the following tabulation, which embodies the above revision, sets forth the reasonable historical cost of Applicant's properties in its Riverside

and San Bernardino districts. There is also shown a revised statement of the remaining value of non-operative property to be amortized, together with the necessary annuity computed on a 6% sinking fund basis, which will provide for amortization in a period of seven additional years and pay 6% interest upon the unamortized balance.

TABLE NO. I

SOUTHERN CALIFORNIA GAS COMPANY

SUMMARY OF RATE BASE, DEPRECIATION ANNUITY, AMORTIZATION ANNUITY

September 30, 1920.

	<u>RATE BASE</u>	<u>DEPRECIATION ANNUITY 6% S.F.</u>
<u>OPERATIVE PROPERTY.</u>		
Colton Plant	\$119,068.95	\$2,555.61
Riverside Division	257,748.31	5,984.89
San Bernardino Division	367,200.40	8,699.08
Chino-Colton Line	142,141.57	10,665.00
	<u>\$906,159.23</u>	<u>\$27,904.58</u>
<u>WORKING CASE CAPITAL AND MATERIALS AND SUPPLIES.</u>		
	54,000.00	
<u>TOTAL RATE BASE</u>	<u>\$960,159.23</u>	<u>\$27,904.58</u>

ALLOCATION OF OPERATIVE CAPITAL TO DISTRICTS.

RIVERSIDE DIVISION	\$429,248.30	\$12,358.95
SAN BERNARDINO	530,910.93	15,904.58

AMORTIZATION OF NON-OPERATIVE PROPERTY.

<u>NON-OPERATIVE PROPERTY.</u>	<u>REPRODUCTION COST NEW</u>	<u>AMOUNT TO BE AMORTIZED 7 YRS.</u>	<u>AMORTIZATION ANNUITY 6% S.F.</u>
RIVERSIDE DIVISION	\$18,061.88	\$6,009.97	\$1,076.63
SAN BERNARDINO DIV.	39,310.98	10,696.73	1,916.21
<u>TOTAL.</u>	<u>\$57,372.86</u>	<u>\$16,706.70</u>	<u>\$2,992.84</u>

From a study of the evidence introduced by Southern California Gas Company and also from reports prepared by the Commission's engineers covering investigations of this matter, the following synopsis has been prepared of Applicant's operations in its Riverside and San Bernardino Districts for the year ending September 30, 1920, together with an estimate for the year ending September 30, 1921 under the present rates. This table covers operations only of the original properties of Southern California Gas Company.

TABLE NO. II
SOUTHERN CALIFORNIA GAS COMPANY
SUMMARY OF OPERATIONS, RIVERSIDE AND SAN BERNARDINO
UNDER PRESENT RATES.

	<u>Riverside District</u>		<u>San Bernardino Dist.</u>	
	<u>1920</u>	<u>Est. 1921</u>	<u>1920</u>	<u>Est. 1921</u>
Sendout Mcf.	131,994 ✓	157,200 ✓	139,853 ✓	181,000 ✓
Domestic Sales	103,063	130,580	108,279	141,230
Unaccounted For	28,931	36,620	31,574	39,770
Consumers	3,922	4,210	4,138	4,730
Gross Revenue	\$104,047 ✓	\$137,370 ✓	\$115,029 -	\$154,082 ✓
Operating Exp.	92,568	108,483	106,259	130,453
Net Return	11,479	28,887	8,760	23,619
Approx. Rate Base		429,250		530,910
Percent Return		6.75% ✓		4.45% ✓

It will be noted from the above table that the estimated operations for the year 1921 show a material increase in gas sales and revenue over the year 1920. This should result from the general growth of the districts and from the new uses which will be made of natural gas now being served. The costs of service in the City of San Bernardino are somewhat higher than in Riverside. This is due largely to higher distribution costs and to the payment of local franchise taxes. Since the

submission of this application Applicant has been required to obtain from the City of San Bernardino a franchise covering the distribution and sale of gas. This franchise requires the payment by it of 2% of its gross revenue to the City. Necessarily this operating expense must be borne by the consumers of San Bernardino and not spread over the consumers in Riverside and outlying towns. Corrections have been made in the estimates of general expense items for the proper charging of a certain portion of these expenses to capital accounts rather than to operating accounts, as has been the practice of Applicant in the past. Deductions have been made from both revenues and expenses for gas arcs operations which was a subject of special contention by the City of San Bernardino.

Applicant has asked that it be granted authority to establish such rates as may be necessary to yield a 9% return upon its investment. After a study of the cost of bond money to Southern California Gas Company, I find the average cost to date has been approximately 7%, with even higher costs for recent issues. In view of the present high cost of borrowed money, it appears just and reasonable to permit a return of 9% in this particular case, especially when consideration is given to the greater hazard attaching to the service of natural gas and to the fact that Applicant has made special efforts to reduce the cost of gas service to its consumers by the effecting of substantial economies.

The present domestic rates in the cities of Riverside and San Bernardino are as follows:

First	3,000 cu.ft.	.....	\$1.20	per M cu.ft.		
Next	5,000 "	.....	1.10	" "	" "	
"	7,000 "	.....	1.00	" "	" "	
"	15,000 "	.....	.80	" "	" "	
"	20,000 "	.....	.60	" "	" "	
All over	50,000 "	.....	.50	" "	" "	

Minimum Charge \$.60 per Meter per Month.

In the surrounding unincorporated territory the rates are approximately 10 cents per M cubic feet higher than for the first 8,000 cubic feet.

The rates set forth in the following Order should provide Applicant a return of 9% upon the fair valuation of its properties after meeting all proper expenses for operation, maintenance and depreciation. The rate in San Bernardino has been made approximately 5 cents per 1,000 cu.ft. higher than in Riverside to cover franchise tax and generally higher costs.

I submit the following form of Order:

ORDER

Southern California Gas Company having applied to the Railroad Commission for an order establishing gas rates to be charged by it in its Riverside and San Bernardino divisions, public hearings having been held, briefs having been filed, and the matters having been submitted and being now ready for decision,

The Railroad Commission hereby finds as a fact that the rates now charged by Southern California Gas Company for gas are not just and reasonable rates, and that the rates hereinafter established are just and reasonable rates for gas service rendered in its Riverside and San Bernardino Divisions.

It is further found that the alleged unjust and unreasonable rates and alleged unsatisfactory gas service conditions as set forth in the complaint of the City of Riverside against Southern California Gas Company do no longer exist and that the service is now satisfactory.

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

IT IS HEREBY ORDERED that the complaint of the City of Riverside against the Southern California Gas Company, Case No. 1407, be, and the same is, hereby dismissed.

IT IS HEREBY FURTHER ORDERED that Southern California Gas Company be, and is, hereby authorized to charge and collect for gas service the rates set forth in the following schedules for the districts enumerated, based on all regular meter readings taken on and after the 1st day of October 1921.

SCHEDULE NO. C-1

RIVERSIDE DIVISION

GENERAL SERVICE FOR LIGHTING, HEATING & COOKING

Applicable to domestic and commercial service, for lighting, heating, cooking, etc.

TERRITORY.

Applicable within the incorporated limits of the City of Riverside.

RATE.

First	3,000	cu.ft.	per	meter	per	month	..	\$1.25	per	M	cu.ft.
Next	7,000	"	"	"	"	"	..	1.15	"	"	"
"	10,000	"	"	"	"	"	..	1.05	"	"	"
"	30,000	"	"	"	"	"	..	.90	"	"	"
All over	50,000	"	"	"	"	"	..	.75	"	"	"

Minimum Charge \$1.00 per meter per month.

SPECIAL CONDITIONS.

Consumers served under this schedule have priority in the use of gas over consumers served under Schedules Nos. C-4, C-5 and C-6, at times when there may be an insufficiency of gas to supply the demands of all consumers.

SCHEDULE NO. C-2

SAN BERNARDINO DIVISION

GENERAL SERVICE FOR LIGHTING, HEATING AND COOKING

Applicable to domestic and commercial service for lighting, heating, cooking, etc.

TERRITORY.

Applicable within the incorporated limits of the City of San Bernardino.

RATE.

First	3,000	cu.ft.	per	meter	per	month	..	\$1.30	per	M	cu.ft.
Next	7,000	"	"	"	"	"	..	1.20	"	"	"
"	10,000	"	"	"	"	"	..	1.07	"	"	"
"	30,000	"	"	"	"	"	..	.92	"	"	"
All over	50,000	"	"	"	"	"	..	.77	"	"	"

Minimum Charge \$1.00 per meter per month.

SPECIAL CONDITIONS.

Consumers served under this schedule have priority in the use of gas over consumers served under Schedules Nos. C-4, C-5 and C-6, at times when there may be an insufficiency of gas to supply the demands of all consumers.

SCHEDULE NO. C-3

RIVERSIDE - SAN BERNARDINO DIVISIONS

GENERAL SERVICE FOR LIGHTING, HEATING & COOKING

Applicable to domestic and commercial service, for lighting, heating, cooking, etc.

TERRITORY:

Applicable to all territory within the Riverside and San Bernardino Divisions, including all incorporated and unincorporated territory, except the incorporated cities of Riverside and San Bernardino.

RATE.

First	3,000	cu.ft.	per	meter	per	month	..	\$1.35	per	M	cu.ft.
Next	7,000	"	"	"	"	"	..	1.25	"	"	"
"	10,000	"	"	"	"	"	..	1.10	"	"	"
"	30,000	"	"	"	"	"	..	.95	"	"	"
All over	50,000	"	"	"	"	"	..	.80	"	"	"

Minimum Charge \$1.00 per meter per month.

SPECIAL CONDITIONS.

Consumers served under this schedule have priority in the use of gas over consumers served under Schedules Nos. C-4, C-5 and C-6, at times when there may be an insufficiency of gas to supply the demands of all consumers.

SCHEDULE NO. C-4

RIVERSIDE AND SAN BERNARDINO DIVISIONS
COMMERCIAL RESTAURANT AND HOTEL SERVICE.

Applicable to hotels, restaurants, bakeries, hospitals, etc., whose requirements for gas are not strictly dependent upon atmospheric temperature.

TERRITORY.

All territory within the Riverside and San Bernardino Divisions both incorporated and unincorporated.

RATE.

For guaranteed minimum usage of 50,000 cu. ft. per meter per month.

First 50,000 cu. ft. per meter per month \$.80 per M cu.ft.
All over 50,000 " " " " " " .70 " " " "

Minimum Charge - for continuous service - \$40.00 per meter per month.

SPECIAL CONDITIONS.

Consumers served under this schedule are subject to the prior use of consumers served under Schedules No. C-1, C-2 and C-3, but have priority over consumers served under Schedules Nos. C-5 and C-6 at times when there may be an insufficiency of gas to supply the demands of all consumers.

SCHEDULE NO. C-5

RIVERSIDE AND SAN BERNARDINO DIVISIONS.

FURNACE AND HEATING SERVICE.

Applicable to service for steam boilers and furnaces, for heating buildings and for industrial purposes.

TERRITORY.

All territory within the Riverside and San Bernardino Divisions including both incorporated and unincorporated territory.

RATE.

Consumption charge per meter per month \$.70 per M cu.ft.

MINIMUM CHARGE.

\$5.00 per meter per month.

SPECIAL CONDITIONS.

Service taken under this schedule is subject to discontinuance in favor of consumers served under Schedules Nos. C-1, C-2, C-3 and C-4 at times of actual or threatened gas shortage.

SCHEDULE NO. C-6

RIVERSIDE AND SAN BERNARDINO DIVISIONS.

GAS ENGINE SERVICE.

Applicable to service for internal combustion engines only.

TERRITORY.

All territory within the Riverside and San Bernardino Divisions including all incorporated and unincorporated territory.

RATE.

First	200,000	cu. ft.	per meter	per month	\$.55	per M cu. ft.
Next	300,000	"	"	"	.50	"
All over	500,000	"	"	"	.45	"

MINIMUM CHARGE.

From May to October inclusive	\$5.00	per meter	per month.
From November to April inclusive	1.00	"	"

A cumulative annual minimum of \$36.00 per meter may be charged in place of the above monthly minimum.

SPECIAL CONDITIONS.

Consumers served under this schedule are subject to the prior use of consumers under Schedules Nos. C-1, C-2, C-3, C-4 and C-5.

SCHEDULE NO. C-7

RIVERSIDE AND SAN BERNARDINO DIVISIONS.

INDUSTRIAL SERVICE.

Applicable to the service of gas for use in metal working plants, canning establishments, incinerators, kilns, boilers and other industrial establishments, whose demands for gas are not dependent upon atmospheric temperature, or upon the properation of meals and whose time of maximum demand, if any, does not coincide with the maximum demand of consumers served under Schedule C-1, C-2, C-3, C-4, C-5 and C-6.

TERRITORY.

All territory within the Riverside and San Bernardino Divisions, both incorporated and unincorporated.

RATE.

First	500,000	cu. ft.	per meter	per month	\$.36	per M cu.ft.
All over	500,000	"	"	"	.30	"

MINIMUM CHARGE.

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

SPECIAL CONDITIONS.

In consideration of the reduced rates, service hereunder is subject to discontinuance immediately upon notice in case of an actual or threatened shortage of supply of natural gas. Consumers served under this schedule will in times of gas shortage be discontinued service in favor of consumers served under other schedules, and are therefore expected to maintain adequate supplies of other fuels. This schedule is for the sale of strictly surplus natural gas and is not applicable to the use of gas for heating, lighting, cooking, etc. The Company will not be liable for damages occasioned by shutting off of gas supply.

IT IS HEREBY FURTHER ORDERED that Southern California 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 23rd
day of August, 1921.

H. B. Dundee
H. W. ...
Iwing ...
Chas. H. ...
J. J. ...
Commissioners.