

Decision No. 9443.

BEFORE THE RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA

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**ORIGINAL**

In the Matter of the Application )  
of SANTA MARIA GAS COMPANY for ) Application No. 6442  
authority to Increase Rates. )

Chickering & Gregory, by Evan Williams,  
for Applicant.

C. L. Preisker, City Attorney of Santa Maria,  
for City of Santa Maria, County of  
Santa Barbara, Ladies Improvement  
Club of Groutt, Chamber of Commerce  
of Santa Maria, and the Union Sugar  
Company.

F. H. Johnson, for Town of Betteravia and  
the Union Sugar Company.

E. D. Rubel, for City of Santa Maria.

J. W. Walker, for Oil Workers' Union.

W. T. Shikey and C. P. Kaetzel, for City  
of San Luis Obispo.

MARTIN, Commissioner:

O P I N I O N

Santa Maria Gas Company, Applicant herein, requests authority to increase its rates and charges for all classes of gas service rendered by it, alleging that practically all the rates now in effect, except certain industrial schedules, were established prior to January 1913; that since the establishment of present rates the cost of labor and materials has largely increased; that after July 1, 1921 Applicant will be obliged

to pay a higher price for the natural gas which it procures; and that it is rendering first-class service and that its acts have effected improvements, efficiencies and betterments to the service of direct value to its consumer. It is further alleged that the rates now charged are inadequate to return Applicant a sufficient amount to properly provide for operating costs, depreciation and a fair return upon its investment. Applicant requests that the Railroad Commission investigate its operations and thereupon establish just and reasonable rates.

Applicant submitted evidence in this proceeding by testimony of its Manager, Mr. R. E. Easton, and also in the form of exhibits and testimony covering the financial and operating conditions of the Company by its Engineer, Mr. Gaskell S. Jacobs. Evidence for the Cities of Santa Maria and San Luis Obispo was presented by City Attorneys C. L. Preisker and C. P. Kaetzel, respectively. It was stipulated that Applicant's annual reports, other records before the Commission, and such other information as the Commission may require, be considered in evidence; that Application No. 5200 and Decision No. 7231, (Opinions and Orders of the Railroad Commission of the State of California Vol. 17, page 879), also the record in Application No. 6303, be considered in evidence; that a certified public accountant representing the City of San Luis Obispo be permitted to examine Applicant's books; and further, that the City Attorneys of San Luis Obispo and Santa Maria be given five days from the submission of this proceeding within which to file briefs, and that counsel for Applicant be granted three days within which to reply. The matter has been submitted and is now ready for decision.

Applicant was engaged in supplying natural gas for domestic and commercial purposes prior to the passage of the California Public Utilities Act and because of this fact none of its rates, except the above noted industrial schedules fixed under Application No. 4840, have been established by this Commission, as no other rate applications have heretofore been filed. At the present time Applicant has a multiplicity of rate schedules which are the outgrowth of operations under a long period of changing conditions. It is obviously apparent these rate schedules should be simplified and revised, and also that Applicant's Rules and Regulations governing gas service be revised to properly comply with the rules specified at present by the Railroad Commission.

Applicant now has in effect for domestic service, a flat rate of \$1.00 per thousand cubic feet in all the larger towns. There are numerous commercial rates varying from 45 to 75 cents per thousand feet, while industrial schedules provide for charges of 25 to 31 cents per thousand feet. The street lighting rate now being charged under special contract with the City of San Luis Obispo is \$2.50 per lamp per month.

Applicant supplies the Towns of Santa Maria, San Luis Obispo, Arroyo Grande, Pismo, Guadalupe, Avila, Betteravia, Nipomo, Orcutt, Sisquoc and certain territory contiguous to its transmission lines, with natural gas received from the Santa Maria oil fields. The present company is the successor to the Santa Maria Gas and Power Company, which had been operating in the vicinity of Santa Maria since about 1907. For a period of years the Midland Counties Public Service Corporation had been supplying artificial gas to consumers in San Luis Obispo. Service was unsatisfactory and the Santa Maria

Company prepared to lay a transmission line to the City of San Luis Obispo, whereupon the Midland Company purchased an abandoned oil pipe line and itself introduced natural gas to San Luis Obispo and established a rate of 50 cents per thousand cubic feet, or half that charged by the Santa Maria Gas and Power Company, which had completed its line to San Luis Obispo. After a long period of competition an agreement was entered into whereby the Santa Maria Company purchased the gas properties of the Midland Counties Public Service Corporation and the present Santa Maria Gas Company was thereupon organized.

The purchase by Santa Maria Gas and Power Company of these properties for the sum of \$388,000 was authorized by the Railroad Commission by its Decision No. 7231 (Opinions and Orders of the Railroad Commission of the State of California Vol. 17, page 879), with the reservation that the purchase price should not later be binding before the Commission as a value in fixing Applicant's rates. The same domestic rate of \$1.00 per thousand cubic feet as was in force on the Santa Maria Gas Company system was put into effect on lines acquired from the Midland Counties Company. By the terms of the purchase of the Midland Company's properties the Santa Maria Company acquired an 8-inch transmission line from the Santa Maria oil fields to Avila and a 4-inch line from Avila to San Luis Obispo. The major portion of this 8-inch line has now been abandoned and salvaged as it was not required for the operation of the reorganized company.

The plant of the Santa Maria Gas Company comprises a system of high pressure transmission lines receiving their supply from a gas engine driven compressor station located in the oil fields and delivering gas a distance of about eight miles

to the Town of Santa Maria, and to other lines continuing to the north a further distance of thirty miles, supplying San Luis Obispo and other towns along the way. In San Luis Obispo there are installed two gas storage holders having a total capacity of 300,000 cubic feet and also a booster plant for increasing the gas pressure during periods of heavy demand. Applicant obtains its supply of natural gas from the Santa Maria oil fields. Gas produced in this district is all "casing-head" gas of good quality, tests by the Commission's Engineers showed it to average about 1100 B.T.U. per cubic foot. A new contract for a period of ten years starting August 1, 1921 has been entered into with the Union Oil Company for the purchase of gas at the rate of 10 cents per thousand, and provides for a monthly minimum delivery of 15,000,000 cubic feet. Additional gas amounting to about 10,000,000 cubic feet per month is purchased from the Rice Ranch Oil Company and the Western Union Oil Company.

At the time of the hearing of this application testimony was introduced regarding the relative cost of gas service in the two cities of Santa Maria and San Luis Obispo, the former city contending that it has in the past been obliged to carry a portion of costs chargeable to the City of San Luis Obispo, inasmuch as the two cities have the same rates and the latter is considerably more distant from the source of gas supply. It was agreed that the Commission should make a special investigation of this phase of the proceeding in order that equitable rates be established. This investigation of operating conditions shows that the rendering of service to San Luis Obispo and other northern communities is more expensive than

supplying the City of Santa Maria and consumers close to the oil fields along the main transmission lines. Each additional investment in pipe lines, holders and other equipment is required and additional costs are incurred for compressing the gas to higher pressures for transmission to and for distribution in San Luis Obispo. These additional costs are not fully offset by the greater volume of domestic sales in San Luis Obispo. It therefore appears proper that a differentiation be made in the rates charged in San Luis Obispo and Santa Maria.

Applicant submitted exhibits Nos. 4, 5, 6 and 7 relative to its investment in operative properties. By exhibit No. 6 it set forth the sum of \$806,551 as the amount of its fixed capital, which, with its estimates for materials and supplies and working cash capital, totaled \$846,551 for rate base claimed. These figures were based upon the "book values" of the properties of the former Santa Maria Gas and Power Company, to which were added certain depreciated reproduction costs of operative property acquired from Midland Counties Public Service Corporation. It is to be noted that this appraisal included values for the Midland properties at the actual purchase price, less deductions for pipe lines salvaged and other non-operative items. It was stipulated in Application No. 5200 that the purchase price of Midland Company's properties should not necessarily be binding before the Commission in the future fixing of rates. Further, it is to be noted that the depreciated reproduction cost, upon which the purchase was made, was based upon prices of 1920, which was the peak period of construction costs and a long time after the actual construction of the properties and not reasonably indicative of the historical cost. Other items of value included in the appraisal rep-

resented charges for certain gas leases now expired and no longer in force.

While the Commission has not at this time made an inventory or appraisal of Applicant's system, it has in connection with former applications for bond issues and transfers of property investigated the value of Applicant's properties. In view of the information now before me I am of the opinion that the rate base urged by Applicant is in excess of what would from the evidence be considered reasonable. The Commission's Engineers have given special consideration to this matter and have arrived at figures materially lower than Applicant's. Without finally passing on the matter of property values, I find the following capital estimate to be a reasonable basis in determining the rates herein. If deductions are made from Applicant's estimated rate base of \$846,551 for values of expired gas contracts, for abandoned and salvaged property, for revisions of allowances for working capital and supplies, and for differences between Applicant's depreciated reproduction cost and the Commission's Engineers' estimates of historical cost as determined from the records before the Commission for the property acquired from Midland Counties Public Service Corporation which is useful, the figure of \$707,800 is determined as being fairly representative of Applicant's total investment in operative physical property used and useful in the public service.

For some time Applicant has not earned a full return upon its investment and has neglected during the past period of high construction costs to fully provide for all necessary maintenance on its pipe lines and is now confronted with the necessity of heavy charges for deferred maintenance. Actual

field inspection of the various transmission lines was made by one of the Commission's Engineers in order to determine the extent of repairs necessary. Attention should at this time be drawn to the fact that according to testimony, much of the pipe was originally laid without being properly protected with paint before laying. This condition has unquestionably materially hastened the need of present replacements, which, if fully allowed in operating charges and capital accounts, would be unfair to the rate-payer, as they could have been partly avoided by the exercise of good engineering by the utility at the time the lines were installed.

The following tabulation sets forth comparative figures for the operations during the year 1920 and estimated operations for 1921. It is to be noted that the first six months of 1920 represented the operation of the Santa Maria Gas and Power Company, while during the last six months of the year operations covered the combined properties acquired from the Midland Counties Public Service Corporation. In preparing the following estimates allowances have been made for the increased cost of gas, certain deferred maintenance and higher state taxes as are now in effect.



SANTA MARIA GAS COMPANY  
COMPARATIVE OPERATING STATISTICS  
ESTIMATE FOR YEAR 1921 UNDER PRESENT RATES

CONSUMERS, April 1921

Santa Maria, City	1,007
Balance of Santa Maria District	418
San Luis Obispo, City	1,767
Balance of San Luis Obispo District	<u>536</u>
<u>TOTAL</u>	3,727

NATURAL GAS PURCHASED M cu.ft. 441,370

GAS SALES M c.f.	Domestic	120,000
	Street Lighting	9,000
	Gas Engines	7,000
	Boiler Fuel	60,000
	Miscellaneous	<u>121,100</u>
<u>TOTAL M cu.ft.</u>		317,100

REVENUE

Domestic Sales	\$116,400
Industrial & Miscellaneous	<u>67,250</u>
<u>TOTAL</u>	\$183,650

EXPENSES

Production	\$ 44,137
Transmission	25,000
Distribution	22,000
General & Miscellaneous	31,000
Taxes	16,750
Depreciation	<u>16,313</u>
<u>TOTAL</u>	\$155,200

NET FOR RETURN \$ 28,450

APPROXIMATE RATE BASE \$707,800

PERCENT RETURN 4.0%

In estimating the total cost of domestic gas service consideration has been given to the investment in the 8-inch pipe line from the Santa Maria oil fields to Betteravia Junction acquired from the Midland Company. An analysis of Applicant's operations shows that the full capacity of this line is not required in rendering domestic service. Evidence before the Commission indicates this 8-inch line has been maintained for the purpose of selling surplus gas to the steam plant of San Joaquin Light and Power Corporation in accordance with certain terms of the agreement under which the Santa Maria Gas Company purchased the Midland Company's gas properties. In view of these facts I do not find it reasonable to charge the full amount of the investment in this line to the cost of domestic service. An adjustment for this item has, therefore, been made.

From the preceding table it is apparent that the present rates fail to yield Applicant a reasonable return upon its investment. Applicant has urged very material increases in its existing rates, asking that it be permitted to earn a 10% return, and also that it be given special consideration because of the benefits and economies enjoyed by its consumers due to the introduction of natural gas by it. At the time of the introduction of natural gas into San Luis Obispo by Applicant's predecessor the \$1.00 per thousand rate was voluntarily established for that district the same as was in effect in Santa Maria notwithstanding the higher cost of service in San Luis Obispo. This present rate has been maintained for a considerable number of years without requests for an increase, even during periods of advancing costs, which would tend to indicate that Applicant has until now been satisfied with the present

schedules. Applicant is entitled to an increase in its net return, requiring an increase in its rates, but at this time should not be granted a 10% return. The following rates, set forth in the accompanying Order, should provide Applicant a fair and reasonable return upon its investment.

I submit the following form of Order:

### O R D E R

Santa Maria Gas Company having applied to the Railroad Commission for authority to increase its rates and charges for gas, 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 for gas by Santa Maria Gas Company, in so far as they differ from the rates herein established, are not just and reasonable rates, and that the rates herein established are just and reasonable rates for all classes of gas service rendered by Santa Maria Gas Company.

Being its order on the foregoing findings of fact and other findings of fact contained in the Opinion which precedes this Order.

IT IS HEREBY ORDERED that Santa Maria Gas Company be, and is, hereby authorized to charge and collect the following rates for gas for domestic, commercial, industrial and street lighting service in its several districts as provided for in the accompanying schedules, which supersede all present schedules now in effect. The rates herein established shall be effective for all regular meter readings taken on and after

the first day of October, 1921.

SCHEDULE NO. 1

GENERAL SERVICE

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

TERRITORY:

Applicable to towns of Santa Maria and Orcutt and consumers along Orcutt Road.

RATE:

First	5,000	cu.ft.	per	meter	per	month	\$1.25	per	M	cu.ft.
Next	10,000	"	"	"	"	"	1.15	"	"	"
"	35,000	"	"	"	"	"	1.10	"	"	"
All over	50,000	"	"	"	"	"	1.00	"	"	"

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. 4, 5 or 6 at times when there is insufficient gas to supply the demands of all consumers.

SCHEDULE NO. 2

GENERAL SERVICE

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

TERRITORY:

Applicable to the City of San Luis Obispo.

SCHEDULE NO. 2 (Cont'd)

RATE:

First	5,000	cu.ft.	per	meter	per	month	\$1.30	per	M	cu.ft.
Next	10,000	"	"	"	"	"	1.20	"	"	"
"	35,000	"	"	"	"	"	1.15	"	"	"
All over	50,000	"	"	"	"	"	1.05	"	"	"

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. 4, 5 or 6 at times when there is insufficient gas to supply the demands of all consumers.

SCHEDULE NO. 3

GENERAL SERVICE

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

TERRITORY:

Applicable to all territory not included under Schedules Nos. 1 and 2.

RATE:

First	5,000	cu.ft.	per	meter	per	month	\$1.35	per	M	cu.ft.
Next	10,000	"	"	"	"	"	1.25	"	"	"
"	35,000	"	"	"	"	"	1.15	"	"	"
All over	50,000	"	"	"	"	"	1.05	"	"	"

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. 4, 5 or 6 at times when there is insufficient gas to supply the demands of all consumers.

SCHEDULE NO. 4

COMMERCIAL HEATING AND COOKING

Applicable to restaurants, bakeries, butchers, hotels, schools, libraries, churches, clubs, mechanical processes, incubators, etc.

TERRITORY:

Applicable to all districts served.

RATE:

First	20,000	cu.ft.	per	meter	per	month	\$ .75	per	M	cu.ft.
Next	30,000	"	"	"	"	"	.65	"	"	"
All over	50,000	"	"	"	"	"	.60	"	"	"

Minimum Charge \$10.00 per Meter per Month.

SPECIAL CONDITIONS:

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

SCHEDULE NO. 5

GAS ENGINE SERVICE

Applicable to the use of gas in internal combustion engines only.

TERRITORY:

Applicable to all districts served.

RATE:

First	100,000	cu.ft.	per	meter	per	month	\$ .55	per	M	cu.ft.
All over	100,000	"	"	"	"	"	.50	"	"	"

Minimum Charge: May to October inclusive \$5.00 per Meter per Month; November to April inclusive \$1.00 per Meter per Month. For continuous service \$36.00 per year.

SCHEDULE NO. 5 (Cont'd)

SPECIAL CONDITIONS:

Consumers served under this schedule have priority in the use of gas over consumers served under Schedule No. 6, but are subject to the prior use of consumers served under Schedules Nos. 1, 2, 3 and 4 at times when there is insufficient gas to supply the demands of all consumers.

SCHEDULE NO. 6

INDUSTRIAL AND BOILER FUEL SERVICE

Applicable to industrial service on existing mains having a delivery capacity in excess of the present requirements of consumers served under Schedules Nos. 1, 2, 3, 4 and 5; for use in steam boilers, incinerators, kilns, packing houses, creameries, laundries, metal working plants, canneries, etc., in which the gas is not used to heat buildings or to prepare meals and which are equipped to use other fuels, and can be converted to use other fuels on thirty minutes notice. Consumers receiving service under this schedule are required to maintain adequate supplies of such other fuels.

TERRITORY:

Applicable to all districts served.

RATE:

First	100,000	cu.ft.	per	Meter	per	Month	\$	.35	per	M	cu.ft.
All over	100,000	"	"	"	"	"	"	.30	"	"	"

Minimum Charge \$15.00 per Meter per Month.

SPECIAL CONDITIONS:

Measurement based upon the unit of 1000 cubic feet of gas at 4-ounce pressure above atmosphere. At times of gas shortage consumers of this class will be shut off in favor of consumers served under Schedules Nos. 1, 2, 3, 4 and 5. No obligation is undertaken to serve consumers of this class for any period of time.

SCHEDULE NO. 7

SPECIAL CONTRACT INDUSTRIAL RATE FOR SURPLUS GAS

Applicable to service of gas for fuel to industrial consumers.

TERRITORY:

Applicable to the City of San Luis Obispo only.

RATE:

Rate per thousand cubic feet ..... 31 cents  
Minimum Charge \$31.00 per Meter per Month.

SPECIAL CONDITIONS:

(1) The gas supplied under this schedule is surplus gas only and service hereunder shall be furnished only under the form of contract entitled "Contract for Sale of Surplus Natural Gas" as set forth in the Rates, Rules and Regulations of Santa Maria Gas Company, of which this schedule and said contract are a part, and service hereunder is furnished subject to each and every term and condition of said form of contract.

(2) Service hereunder shall not be commenced unless and until said form of contract has been duly executed by the consumer and approved and accepted by the Company.

(3) In addition to the special terms and conditions stated in said form of contract, service hereunder is subject to the rules and regulations of the Company in so far as the same are not in conflict therewith.

(4) Measurement based upon the unit of 1000 cubic feet of gas at 4-ounce pressure above atmosphere. At times of gas shortage consumers of this class will be shut off in favor of consumers served under Schedules Nos. 1, 2, 3, 4 or 5.

SCHEDULE NO. 8

STREET LIGHTING SERVICE

Applicable to the service of gas street lamps, including gas supply and maintenance.



SCHEDULE NO. 8 (Cont'd)

TERRITORY:

Applicable to the City of San Luis Obispo.

RATE:

Per Lamp per Month ..... \$2.75

SPECIAL CONDITIONS:

Service to be as provided for by contract for operation of 2-mantle, 300 candle power "Type D" lamps of the Welsbach Street Lighting Company of America, equipped with 15-inch Alba globes, mounted on iron or concrete standards. Lamps to be cleaned, repaired and operated all night and every night by the Gas Company.

IT IS HEREBY FURTHER ORDERED that Santa Maria Gas Company shall, within thirty days from the date of this Order, file with the Railroad Commission the schedules of rates herein authorized together with a complete revision of its Rules and Regulations governing gas service.

The effective date of this Order is September 20, 1921.

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

31<sup>st</sup> day of August, 1921.

*H. J. Brundige*  
*H. D. Torrance*  
*James W. Weston*  
*Charles H. Brown*  
*J. J. Pennington*  
Commissioners.