

ORIGINAL

Decision No. 9839BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Investigation)
of the Gas Rates, Service and Op -)
erations of MODESTO GAS COMPANY, on) Case No. 1662
the Commission's Own Motion.)

Frank A. Cressey Jr., for Modesto Gas
Company.

A. J. Carlson, City Attorney for Modesto.

BY THE COMMISSION:

O P I N I O N

A public hearing was held by Examiner Westover at Modesto in the above case, instituted upon the Commission's own motion to determine whether or not reported material reductions in the price of crude oil had been sufficient to justify a reduction in rates charged for gas. Exhibits referred to in the testimony, embodying additional information requested by the Commission's engineers, to be submitted after the hearing, have now been received and filed and the matter is ready for decision.

The Modesto Gas Company is a utility engaged in the manufacture, distribution and sale of gas in the City of Modesto.

The capital investment in physical property was given special consideration in this proceeding. A detailed valuation of this property was made as of April 1st, 1916, by the Commission's engineers in connection with Applications Nos. 2206 and 2207. Since that time the Company has made extensive improvements and additions to its equipment. A check of these additions and betterments shows that the expenditures are not excessive, but appear to have been wisely made with due consideration to the rendering of adequate service at present and for a reasonable growth of business in the future. Certain of the capital items have, however, been eliminated from the rate base as non-operative property at this time. These items include expenditures for a lot and its preparation for the erection of a general office building. This cannot be included in the rate base until the building is actually occupied and the rent on the present quarters discontinued. A few other minor deductions have been made for equipment retired from service. The rate base adopted for this proceeding is as follows:

RATE BASE

MODESTO GAS COMPANY

Fixed Capital as of August 31, 1921	\$319,500
One-half Est. Additions for following year	6,700
Average Month Oil Supply	3,130
Materials and Supplies	4,870
Working Cash Capital	<u>8,500</u>
TOTAL RATE BASE.....	\$342,700

The operating expenses of the Modesto Gas Company have

in the past been quite reasonable with the exception of oil use, but the evidence shows a contemplated increase of \$9,373.20 in payroll during the following year while the increase in sales estimated by the Company is only 8 per cent. The estimate of the operating expenses used for rate fixing purposes herein are based upon an estimate of sales amounting to 72,000,000 cubic feet and includes approximately \$6,500 of the above mentioned increase in payroll, which amount appears reasonable. The duty of oil used ^{herein} is 11.1 gallons per 1000 cubic feet sold as compared with the average of 12.6 gallons per 1000 cubic feet for 1920. This smaller use of oil should not be exceeded under present conditions.

ESTIMATED OPERATING EXPENSES

MODESTO GAS COMPANY

FOR YEAR ENDING AUGUST 31ST, 1922

Production		
Oil	\$38,100	
Operation & Maintenance	18,770	\$56,870
Transmission & Distribution		
Operation & Maintenance		14,370
Commercial Expense - -		5,400
General Expense - -		13,000
Taxes - -		<u>11,170</u>
		TOTAL OPERATING EXPS.-\$100,810

The present rates for Modesto Gas Company were established by Decision No. 7581 and became effective May 20th, 1920. These rates were based upon an average price of oil of \$2.04 per barrel. Between May, 1920., and the present time oil price increased and later decreased to the present

price of \$2.00 per barrel.

The existing rates have yielded during the past twelve months a gross revenue amounting to \$1.875 per thousand cubic feet of gas sold. Upon the previously mentioned estimates of sales for the year ending Aug. 31, 1922, these rates will supply a gross revenue of about \$135,000. In the following tabulated data it is shown that after deduction for the operating expenses, depreciation, and an allowance for accounts, which are uncollectible, a sum of \$27,400. will be available for return upon the investment.

ESTIMATED TOTAL REVENUE, EXPENSES AND ANNUAL CHARGES

MODESTO GAS COMPANY

FOR YEAR ENDING AUGUST 31ST, 1922.

Gross Revenue from 72,000 M cu. ft. sales @ \$1.875	-	\$135,000.
Operating Expenses	\$100,810.	
Depreciation	6,120.	
Uncollectible Accounts	670.	<u>107,600.</u>
RETURN ON INVESTMENT		<u>\$ 27,400.</u>

This return is 8% upon the rate base.

While there has been a slight reduction in the price of oil below that upon which the present rates were fixed, there have occurred increases in taxes and other operating expenses so that there is practically no change in the total cost of service. No modification in the rates is possible at this time.

It is advisable, however, to introduce a form of rate which may be modified by a supplemental order from the Commission without a hearing to correct for changes in the price of oil. The cost of producing gas in this system varies by approximately 2.6 cents per 1000 cubic feet with a variation of 10 cents per barrel in the price of oil. The rates herein will be so fixed as to vary on this basis.

O R D E R

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

The Railroad Commission hereby finds as a fact that the rates heretofore fixed in Decision No. 7581 as modified herein are just and reasonable rates to be charged for gas service by Modesto Gas Company.

Basing its Order on the foregoing findings of fact and the findings of fact contained in the Opinion which precedes this Order,

IT IS HEREBY ORDERED that Modesto Gas Company charge and collect for gas served by it the schedules of rates for the service specified as contained in the Order in Decision No. 7581, dated May 17th, 1920.

IT IS HEREBY FURTHER ORDERED that Modesto Gas Company amend its schedules of rates Nos. A and B by filing with the Commission within ten days after the date of this Order an amendment to each of said Schedules No. A and No. B, reading as follows:

The above rates, upon approval of the Railroad Commission of the State of California, are subject to increase or decrease on the basis of two and six tenths (2.6) cents per thousand cubic feet of gas for each ten (10) cents per barrel increase or decrease, respectively in the price of oil above or below the price of \$2.00 per barrel f.o.b. Modesto. The change to be to the nearest one cent.

IT IS HEREBY FURTHER ORDERED that:

1. In case of a reduction in the price of oil Modesto Gas Company shall file within ten (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.

2. Should at any time an increase in the price of oil occur, Modesto Gas Company may, after filing affidavit of such increase and receiving a supplemental order from this Commission so authorizing, charge the increased rates as determined under the schedules 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 6th
day of December 1921.

H. C. Raymond, Jr.

H. D. Loveland

James M. Martin

Charles F. Rowan

Commissioners