

BM

Decision No. 9640

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

In the Matter of the Investigation)	
of the Gas Rates, Service and Op-)	
erations of COAST COUNTIES GAS AND)	<u>Case 1660</u>
ELECTRIC COMPANY, on the Commission's)	
Own Motion.)	

Leo H. Sussman, for Coast Counties Gas
and Electric Company,

A. W. Sans, City Attorney, for City of
Watsonville,

George W. Smith, City Attorney for City
of Santa Cruz.

BY THE COMMISSION:

O P I N I O N

A public hearing was held by Examiner Westover at Watsonville 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 city attorneys and 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 Coast Counties Gas and Electric Company is a utility engaged in the manufacture, distribution and sale of artificial gas in the incorporated cities and towns of Santa

Cruz, Watsonville, Hollister and Gilroy and certain territory adjacent thereto. The present rates for gas, effective July 26th, were established by Decision No. 7908 in Application No. 5526. The price of oil at the various manufacturing plants of the utility at that time was as follows: Santa Cruz, \$2.228; Watsonville, \$2.326; Hollister, \$2.439 and Gilroy, \$2.326. During the past few months there has been a material reduction in the price of fuel oil, the present prices being: Santa Cruz, \$1.65; Watsonville, \$1.73; Hollister, \$2.05 and Gilroy, \$1.91.

The capital investment in physical property of the Coast Counties Gas and Electric Company is reasonable, considering the number of consumers served and the fact that the operations cover communities requiring a manufacturing plant in each, and therefore has been used in the new rate base herein allowed. Reductions, however, amounting to about \$10,000., have been made in the utility's estimates for materials and supplies and working cash capital. Allowance for materials and supplies on hand are considered sufficient in amount to include tools. Allowance for working capital is modified because fuel oil has been included by the utility under materials and supplies.

The rate base used is therefore as follows:

RATE BASE
YEAR ENDING 7/31/22
COAST COUNTIES GAS AND ELECTRIC COMPANY
Gas Department

	Santa Cruz.	Watson- ville.	Hollis- ter.	Gilroy	Total
Av. Physical Capital for yr. end. 7/31/22	\$249,206	\$128,665	\$83,126	\$39,813	\$500,810
Materials & Supplies, including Oil,	6,900	4,400	2,600	2,100	16,000
Working Cash Capital,	5,900	3,800	2,200	2,100	14,000
RATE BASE	\$262,006	\$136,865	\$87,926	\$44,013	\$530,810

The estimates of operating expenses submitted by the Company are reasonable and in the light of the other evidence in this case have been accepted for rate fixing. The allowances for gas oil, however, have been modified somewhat in view of the savings and economies which it is believed reasonable to expect. The following table shows the actual operating statistics for the year ending July 31st, 1921:

GAS OPERATING STATISTICS
FOR YEAR ENDING JULY 31. 1921

	Santa Cruz	Watson- ville.	Hollis- ter.	Gilroy	Total
Aver. No. of Consumers	2,081	1,193	531	478	4,283
Gas Sold- M cu. ft.	52,550	30,895	12,011	10,443	105,899
Barrels Oil Used	15,435	10,278	4,342	4,162	34,217
Gals. Oil per M sold	12.5	13.9	15.2	16.7	

GAS OPERATING STATISTICS (Cont'd)

	Santa Cruz	Watson- ville.	Hollis- ter.	Gilroy	Total
Revenue-Gas Sales	\$97,692.25	\$57,778.02	\$25,014.15	\$21,977.59	\$202,462.01
Operating Expenses	81,512.80	54,498.13	27,630.66	25,540.80	189,182.39
Net for Return-	\$16,179.45	\$ 3,279.89	-\$ 2,616.51	-\$ 3,563.21	\$ 13,279.62
Physical Property	\$234,206.27	\$121,664.86	\$82,125.81	\$38,812.71	\$476,809.65

The estimate of sales, oil requirements, operating expenses and taxes used herein are shown in detail below:

COAST COUNTIES GAS AND ELECTRIC COMPANY

Gas Department

ESTIMATES FOR YEAR ENDING JULY 31, 1922

	Santa Cruz.	Watson- ville.	Hollis- ter.	Gilroy	Total
Estimated Sales and Oil Requirements:					
Sales - M cu. ft.	58,000	32,700	13,000	11,200	114,900
Gals. Oil per M sold	12.5	12.4	13.25	13.40	
Estimated Operating Expenses:					
Production					
Oil	\$ 28,500	\$16,700	\$ 8,900	\$ 6,830	\$ 60,930
Operation	13,000	8,500	6,100	5,300	32,900
Repairs	4,000	3,200	800	1,600	9,600
Distribution					
Operation	3,800	4,000	3,000	1,500	12,300
Repairs	3,400	1,200	200	800	5,600
Commercial Expenses	5,400	2,600	1,200	1,700	10,900
Taxes	9,200	5,900	1,900	1,600	18,600
Gen. & Misc. Exp.	5,600	3,400	1,475	1,475	11,950
TOTAL OPERATING EXPENSES	\$ 72,900	\$45,500	\$ 23,575	\$20,805	\$162,780

Estimating total sales from the four plants for the year ending July 31, 1922, at 114,900,000 cubic feet, as shown above, and using the present rates which yield an average of \$1.91 per M cubic feet, the estimates of total revenue and expense of the company from all plants at present rates is as shown below:

ESTIMATED TOTAL REVENUE EXPENSE + ANNUAL CHARGES

Gas Department, All Districts

FOR YEAR ENDING JULY 31ST - - 1922

Gross Revenue from 114900 M cu.ft. sales @ \$1.91 -		\$219,290
Operating Expenses including Taxes,	\$162,780	
Depreciation,	15,000	
Rental of Plant,	600	
Uncollectible Accounts,	<u>1,100</u>	<u>179,480</u>
REVENUE AVAILABLE FOR RETURN - - - - -		\$ 39,810

Rate of return 7.5% upon rate base.

It appears from the above analyses that although there has been considerable reduction in the price of oil to the Coast Counties Gas and Electric Company, other operating costs have increased to such an extent that no reduction in rates is possible at this time. Careful study shows these operating expenses to be reasonable under present conditions.

The inability of this Company to earn a full return in its Gas Department is due largely to the two small properties - Hollister and Gilroy - where with the present rate it is possible to earn only a little more than operating expenses. The present rates in these communities are as high as can properly be fixed without curtailing sales.

A form of rate which may be adjusted by supplemental order of the Commission to correct for changes in the price of oil without a formal hearing has been adopted in many other proceedings and is found advisable in this case as far as Santa Cruz and Watsonville are concerned. For this purpose a variation of three (3) cents per 1,000 cubic feet of gas sold for each ten (10) cent per barrel variation in the price of oil is found reasonable for these communities. No variation is provided for in the Hollister and Gilroy rates for the reasons stated above.

O R D E R

This Commission having instituted an investigation on its own motion into the gas rates, service and operations of Coast Counties 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 7908 as modified herein are just and reasonable rates to be charged for gas service by Coast Counties Gas and Electric 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, Coast Counties Gas and Electric Company charge and collect for gas served by it in the various communities in which it now served the schedules of rates contained in the Order in Decision No. 7908, dated July 26th, 1920.

IT IS HEREBY FURTHER ORDERED that, Coast Counties Gas and Electric Company amend its schedules of rates Nos. 1, 2 and 5 by filing with the Commission within ten days after the date of this Order an amendment to said Schedule No. 1, 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 three (3) 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 \$1.65 per barrel f.o.b. Santa Cruz. Change to be to the nearest one cent;

and by filing an amendment to Schedule No. 2, 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 three (3) cents per thousand cubic feet for each ten (10) cents per barrel increase or decrease respectively in the price of oil above or below the price of \$1.73 per barrel f.o.b. Watsonville. Change to be to the nearest one cent;

and by adding to Schedule No. 5 the following paragraph:

The above rates, upon approval of the Railroad Commission of the State of California, are subject to increase or decrease on the basis of three (3) 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 \$1.65 per barrel in Santa Cruz or \$1.73 per barrel in Watsonville. 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 at any time, Coast Counties Gas and Electric 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 an increase in the price of oil occur at any time, Coast Counties Gas and Electric 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.

Dated at San Francisco, California, this 6th
day of December, 1921.

H. A. Brundage

H. W. Loveland

Irving Martin

Charles H. Rouse

Commissioners.