

Decision No. 9914

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

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

C. L. Preisker, City Attorney, for the
City of Santa Maria.

Chickering & Gregory, by Evan Williams,
for Santa Maria Gas Company.

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

BY THE COMMISSION:

OPINION ON REHEARING

On August 31st, 1921 this Commission rendered its Decision No. 9443 in the matter of the application of Santa Maria Gas Company for increase in rates, establishing new and increased schedules of rates to be effective October 1st, 1921. On September 16th, 1921 the City of Santa Maria filed its petition for rehearing in the above entitled application alleging that the rates fixed for the sale of domestic gas as set forth in Schedule No. 1 in Decision No. 9443 for service in the City of Santa Maria are in excess of reasonable rates which should be charged for the service in said city, requesting that rehearing be granted and the Decision No. 9443 be vacated and

that rates be established for the City of Santa Maria based upon the cost of rendering service by the Santa Maria Gas Company. On September 29th, 1921 the Commission issued an order granting the petition for rehearing and ordering that during the pendency of the proceedings on said rehearing the enforcement of the order in Decision No. 9443 be stayed upon the following terms and conditions, to-wit:

1. "The applicant shall be entitled to collect from its consumers rates in accordance with the schedules set forth in said Order, and, in event of a modification of said rates upon rehearing, applicant shall refund to its consumers the excess, if any, of the amounts thus collected above the rates determined upon rehearing."

The City of Santa Maria does not question in its petition for rehearing the total return which the Commission found that Santa Maria Gas Company was entitled to receive but urges that the rate for domestic service charged in the City of Santa Maria is in excess of a reasonable rate and should be reduced. As a basis for its petition for rehearing the City of Santa Maria urges: that it is located much closer to the oil fields from which the natural gas is obtained than is San Luis Obispo or the territory adjacent thereto; that the Gas Company's investment and operating expenses for serving the Santa Maria district are much lower than required in the San Luis Obispo district and that the small differential in rates between the two districts as fixed by the Commission in Decision No. 9443 does not reasonably reflect the differential in cost of service. The rates fixed for domestic service in Decision No. 9443 were, for the City of Santa Maria, 5 cents per thousand cubic feet

less than for the City of San Luis Obispo.

A segregation of the investment of the Santa Maria Gas Company chargeable to the two districts made by the Commission's engineers and submitted at the time of the application for rehearing, showed a materially lower investment per consumer chargeable to the Santa Maria district than in the San Luis Obispo district. It was pointed out, however, that the gas system in the Santa Maria district was in general constructed at a time of relatively low costs and was constructed of second-hand pipe, thus making the investment considerably lower than were new pipe installed. This condition is requiring much greater expenditures for maintenance and replacement at this time in the Santa Maria district than in the San Luis Obispo district. Estimates were also submitted of the cost of gas service in the two communities based upon a segregation of capital and a segregation and proration of operating expenses between the two districts. These tables show that upon the segregation submitted, if these be considered as the only measure of the differential in rates, the average domestic rates for the Santa Maria district should be \$1.16 and for the San Luis Obispo district \$1.33, a total difference upon an arbitrary segregation of costs of 17 cents. These amounts were obtained by deducting from the total segregated cost of service the estimated revenue to be received from the sale of gas for industrial purposes, rates for which are largely dependent on the price of oil or other competitive fuels and the service to which is secondary to the domestic and commercial service.

Representatives of the City of Santa Maria submitted exhibits at the hearing on petition for rehearing making a dif-

ferent segregation of the investment and operating expenses. Based upon the segregation made by the City of Santa Maria it was urged that the average cost for the Santa Maria district for domestic service would be approximately 82 cents per thousand cubic feet and for San Luis Obispo \$1.62. In the segregation made the representatives of the City of Santa Maria have apparently gone to the extreme in attempting to charge all possible costs to San Luis Obispo. On the basis of Santa Maria's contention that it does not question the total return, its suggestion herein is that the City of San Luis Obispo rates should be raised approximately 60 per cent and its rates should be reduced.

The City of Santa Maria is entitled to some benefit on account of its nearness to the oil fields from which the gas is obtained. It probably should not be required to pay more than it could reasonably be required to pay were it served entirely separate and distinct from the service to San Luis Obispo. To any extent that the rates are less than this amount due to the combination of the two services the City of Santa Maria is benefitted. Sound public policy does not sanction such a proposal as made by Santa Maria however.

Further study of the estimates submitted by the Commission's engineers shows that an error was made in estimating the revenue to be received from industrial sales, the average rate used for 144,000,000 cubic feet estimated being 28 cents. These sales covered 60,000,000 cubic feet to San Joaquin Light & Power Corporation's steam plant at 15 cents per thousand cubic feet, 60,000,000 cubic feet to industrial consumers at approximately 30 cents per thousand cubic feet, and 24,000,000 to Union Sugar Company at 21 cents per thousand cubic feet. The average price

to be received is, therefore, 22 cents instead of 28 cents per thousand cubic feet. Making the correction for this item and the addition of \$2,400 for pipe line rentals brings the average rate to be received from the sale of gas for domestic and commercial purposes to \$1.30 per thousand cubic feet for the entire territory, \$1.22 for Santa Maria district and \$1.365 for San Luis Obispo district based on the Commission's engineers segregation.

It appears that with the exception of the correction above made and the possible segregation of certain items of transmission capital and operating expenses the divisions of cost made by the Commission's engineers are reasonable. The segregation as to operating expenses in general gives to Santa Maria the benefit of the larger business resulting from the serving of greater territory.

The estimates submitted by the City of Santa Maria are found not to represent a fair and unbiased view of the situation. On the basis suggested by the City of Santa Maria any reduction in the rates in Santa Maria must result in an increase in rates in the San Luis Obispo district, and it is very apparent that the representatives of the City of Santa Maria are willing that this occur.

We conclude that an average revenue of \$1.22 per thousand cubic feet is reasonable for domestic and commercial gas service in the Santa Maria district and that no real prejudice will be suffered by that district under such rates. The rates for domestic and commercial service for the City of Santa Maria will be reduced 5 cents per thousand cubic feet for the first 15,000 cubic feet per meter per month below that heretofore

fixed. With this reduction the average rate of \$1.22 per thousand cubic feet will be obtained.

The rates in San Luis Obispo will not as at present fixed give Santa Maria Gas Company a full return on the property chargeable to that district.

Santa Maria Gas Company of its own volition entered San Luis Obispo and charged a rate of \$1.00 per thousand cubic feet for domestic service for several years in competition with another company. It apparently of its own free will saw fit to purchase the properties of the other company. The territory was at that time receiving good service under competitive conditions at the rate of \$1.00 per thousand cubic feet. Santa Maria Gas Company does not guarantee to give any better service to the public than they have been receiving. Altho competition is not in general an advisable thing, Santa Maria Gas Company cannot expect to have its rates unreasonably raised when it had been willing in the past, under competitive conditions, to operate at a lesser charge. It is its duty to operate under the rates heretofore ^{by the Commission in Decision 9443} fixed for service in San Luis Obispo, which we find are all that reasonably should be charged at this time for the service, and increase its return by increased efficiency and increased sales of gas.

O R D E R

The City of Santa Maria having filed petition for rehearing in the above entitled matter, rehearing having been granted and the matter having been submitted and being now ready for decision,

The Railroad Commission hereby finds as a fact that

the rates for domestic gas service of the Santa Maria Gas Company in the City of Santa Maria set forth in Decision No. 9443 as Schedule No. 1 should be revised and modified as set forth herein, and that Schedule No. 1 set forth herein is a just and reasonable schedule of rates for domestic gas service in the City of Santa Maria, and that the rates set forth in Decision No. 9443 or as modified and on file with the Commission at this time other than Schedule No. 1 are just and reasonable rates to be charged for the service specified therein.

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 Santa Maria Gas Company charge and collect for gas service in the City of Santa Maria and to consumers along Orcutt Road and in the town of Orcutt, as specified in Schedule No. 1 herein, the rates and charges as specified therein, such rates and charges to be effective for all meter readings taken on and after December 12th, 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	\$1.20	per M cu.ft.
Next	45,000	"	"	1.10	" " "
<i>Rem.</i> "	45,000	"	"	1.00	" " "
All over	50,000	"	"	1.00	" " "

Minimum Charge \$1.00 per Meter per Month

SCHEDULE NO. 1 (Cont'd)

SPECIAL CONDITIONS:

Consumers served under this schedule have priority in the use of gas over consumers served under Schedules Nos. 4, 5 or 6 (see Decision No. 9443) at times when there is insufficient gas to supply the demands of all consumers.

IT IS HEREBY FURTHER ORDERED:

1. That the Order in Decision No. 9443 in Application No. 6442 except as herein specifically modified is continued in full force and effect.

2. That in accordance with the Commission's order granting rehearing in this matter, dated September 29th, 1921, Santa Maria Gas Company credit or refund to its consumers in Santa Maria and along Orcutt Road and in the town of Orcutt the amount of money charged in excess of that determined under the rates herein specified during the period since the effective date of Decision No. 9443 on October 1st, 1921.

Dated at San Francisco, California, this 23^d
day of December, 1921.

H. P. Brundage
H. D. Lovelace
Miss Mary W. Martin
Charles H. Thomas
H. P. Brundage
Commissioners.