Decision No. 26131

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Investigation on the Commission's Own Motion into the reasonableness of the Rates, Rules, Regulations, Charges, Classifications, Contracts, Practices, Service and Operations, or any of them, applicable to Natural Gas Service on the System of San Joaquin Light and Power Corporation.	Case No. 3423.
California Farm Bureau Federation, Complainant, vs. San Joaquin Light and Power Corporation, Defendant.	Case No. 3281.

C.P. Cutten and Chaffee E. Hall, for San Joaquin Light and Power Corporation.
Arthur C. Sheppard, for the County of Fresno.
Chester E. Sheppard, for the City of Selma.
Jay A. Hinman, for Kern County Rate Association, Bakersfield gas consumers and Wasco, Shafter and Delano.
Thomas F. Lopez, for the Apartment House Association of the City of Fresno.
Claude L. Rowe, City Attorney, and J.L. Vincenz, Commissioner of Public Works, for the City of Fresno.
J.J. Deuel and L.S. Wing, for the California Farm Bureau Federation.
Walter Osborn, City Attorney, W.D. Clark, City Manager, and Joe Holfelder, City Engineer, for the City of Bakersfield.
Douglas May, for Kern-Kay, Rolland, Milo and Willard Hotels.
Frank M. Wilkson, Purchasing Agent, for the County of Kern.
M.F. McCormick, for certain prospective consumers.

SEAVEY, COMMISSIONER:

O P I N I O N

Under date of November 21, 1932, the Commission issued its order instituting an investigation into the natural gas business of the San Joaquin Light and Power Corporation. The matter first came on for hearing at Fresno December 13, 1932. Subsequent hearings were held on January 24, March 1, 2, 3, 21 and 22, 1933, and the matter was submitted on oral argument April 1, 1933.

The complaint of the California Farm Bureau Federation, praying for the establishment of rates for gas service for agricultural power use, was consolidated with Case No. 3423 for the purpose of receiving evidence and is disposed of herein.

The San Joaquin Light and Power Corporation supplies natural gas in the Cities of Bakersfield, Selma, Merced and in communities, with the exception of Madera, adjacent to the natural gas transmission line extending from Fresno to Merced. Natural gas service is rendered in Fresno and environs, as well as Fowler, Sanger and Madera, by the San Joaquin Corporation under lease from Pacific Gas and Electric Company. The lease covering the operation by the San Joaquin Corporation of the Pacific Gas and Electric Company properties in Fresno was approved by this Commission in Decision No. 22870, decided September 13, 1930, (35 C.R.C. 191). Control of the San Joaquin Corporation had been acquired by Pacific Gas and Electric Company earlier in 1930, pursuant to Decision No. 22432 (34 C.R.C. 661).

Natural gas service was introduced in Bakersfield in 1910. Manufactured gas was supplied in Fresno until November of

1929, when the service of natural gas was introduced, while in other communities the service of natural gas was introduced subsequent to this date. Natural gas from the Kettleman Hills area is supplied to the northern group of communities through the transmission line of the Southern California Gas Company under a transport agreement between that company and Pacific Gas and Electric Company, except for Selma, which is supplied directly from the transmission line of Southern California Gas Company under a purchase contract. Gas for service to Bakersfield is also purchased under contract from Southern California Gas Company. The Bakersfield system is physically entirely separated from the system in Fresno and to the north of Fresno.

The existing domestic and commercial gas rates in Bakersfield were effective as of September 1, 1919, while the rates in Fresno, Madera and Merced Counties were established as interim rates following the introduction of natural gas into the various communities. With respect to Fresno, more than three years have elapsed since the introduction of natural gas and it now appears appropriate to make revisions in existing schedules.

It was agreed that the record made in Application No. 15696, under which the interim natural gas rates for Fresno were established, might be considered in the record of this case, particularly with respect to the matter of rate differentials established between incorporated and adjacent unincorporated areas.

Estimates of revenue, expense, depreciation annuity, requirements for amortization of property no longer required for service, and rate base were presented by witnesses for the company, City of Fresno and the Commission's staff.

The revised estimates of the various witnesses are shown in the following table on a comparative basis, in so far as it is possible to make direct comparisons between the estimates presented. Differences in the classification of certain expenditures by the witnesses make precise comparison as between accounts impossible but the over-all results are comparable and indicate the variation in the views of the parties.

TABLE I

SAN JOAQUIN LIGHT AND POWER CORPORATION
ESTIMATED RESULTS OF GAS DEPARTMENT OPERATIONS.
1933

	Company	City of Fresno	Commission Staff
Gross Operating Revenue,	$1,337,000	$1,487,250	$1,449,200
Operating Expense:			
Maintenance	56,500	-	-
Extraordinary Maintenance,	25,000	-	15,000
Natural Gas Purchased,	362,300	365,700	369,100
Other Production Expense,	(5,700)	-	-
Transmission Expense,	4,600	15,500	(5,050)
Distribution Expense,	99,092	179,500 (1)	151,300(1)
Commercial Expense,	79,300	81,000	74,100
New Business Expense,	43,700	38,500	41,000
General and Administrative Expense,	29,880	31,250	32,700
Cut-over Expense,	40,008	17,000	40,000
Valuation Expense,	1,720	-	-
State Taxes,	105,100)		104,400
Federal Taxes,	9,000)	148,000	25,250
Other Taxes,	4,500)		4,700
Provision for Casualty and Doubtful Accounts,	20,950	5,500 (2)	6,000(2)
Total Operating Expenses and Taxes,	$ 875,950	$ 881,950	$ 858,500
Depreciation Annuity,	$ 131,068	83 226	130,279
Plant Amortization,	15,773	80,046(3)	12,182(4)
Total-	$1,022,791	$1,045,222	$1,000,961
Net for Return,	$ 314,209	$ 442,028	$ 448,239
Rate Base,	$6,171,000	$5,273,006	$5,952,759
Rate of Return,	5.09%	8.38%	7.53%

(1) Maintenance included.
(2) Provision for casualties included in general and administrative expense.
(3) Includes allowance for portion of Fresno plant which, in turn, is eliminated from computation of depreciation annuity and rate base.
(4) Applicable to Selma and Merced plants obly.
(Red Figure)

With respect to most of the ordinary operating expenses and the necessary depreciation annuity, there was but little divergence of opinion among the witnesses. The revised estimates of revenue as submitted for the company indicated somewhat less revenue from the sale of gas in 1933 than was received in 1932, while Commission engineers and witness for the City of Fresno estimated somewhat more. Actual revenue for the first two months of 1933 exceeded by more than twenty-five thousand dollars ($25,000) the revenue for similar months of 1932. None of the estimates indicated the revenues reasonably to be expected under more normal business conditions. For the purpose of fixing rates for gas, to be applicable any considerable time in the future, even the highest revenue estimates appear to be modest, especially in view of the estimate of the company that, as a result of the expenditure in 1933 of forty-three thousand seven hundred dollars ($43,700) described as new business expense, there would be developed and added to the lines of the company new business productive of an estimated annual revenue of two hundred thousand dollars ($200,000).

The amount to be included in operating expense for "purchased gas" warrants some discussion. In November, 1930, the San Joaquin Corporation entered into a contract with Petroleum Securities Company for the purchase of gas intended for resale to gas consumers and for use by the company in a steam electric power plant which San Joaquin was proposing to build. The quantity of gas and the rate at which it was to be taken under this contract, beginning with July 1, 1932, greatly exceeded the requirements of the company for resale purposes. The construction of the steam plant has been deferred indefinitely. Therefore, twice, early in 1931, San Joaquin secured modifications of the original contract which postponed until July 1, 1933, the requirement that an average of 12,000,000 cubic feet of gas be taken per day. Under the contract the cost of gas was four cents (4¢) per thousand cubic feet. Early in 1933, while hearings were in progress in this matter, the contract was assigned by San Joaquin to Pacific Gas and Electric Company. The so-called Pacific Gas and Electric Company "pool price" of gas in Kettleman fields is slightly in excess of seven cents (7¢) per thousand cubic feet and represents the average cost of all gas purchased by the company in this field plus a small allowance for field collection costs. The full obligation to take gas under the Petroleum Securities contract, despite the low rate, would unduly burden San Joaquin gas consumers and it would be improper to so burden them because of obligations incurred for the benefit of the electric business but now postponed because of changed arrangements relating to the source of electrical energy. In determining the results of the gas operations prior to July 1, 1933, the use of the "pool price" is not warranted, but in the determination of the level of costs thereafter the use of the "pool price" appears to be reasonable under the circumstances.

Extraordinary maintenance in the amount of fifteen thousand dollars ($15,000) per annum is deemed a reasonable expense for the present, but any expenditures beyond this amount should reflect themselves in savings in the cost of gas purchased through leakage mitigation. Consideration must also be given to an increase in the State gross receipts tax passed by the Legislature subsequent to the submission of this matter.

The company claims that Pacific Gas and Electric Company expended one hundred twenty thousand twenty-three dollars and eighty-seven cents ($120,023.87) in changing and adjusting

Fresno consumers' appliances so that they could use natural gas satisfactorily and directs attention to the order in Decision No. 22642 (35 C.R.C. 16), the decision fixing the rates now effective in Fresno which contained the following provision:

> "THE COMMISSION HEREBY FURTHER AUTHORIZES Pacific Gas and Electric Company to amortize and write off such unusual and extraordinary expenses as shall be incurred in the substitution of natural gas service for the manufactured gas service heretofore rendered, during a three-year period, commencing with the record year of natural gas service in the territory involved in this petition."

The three-year period indicated would be substantially 1931, 1932 and 1933. Upon application by letter, the Commission by Decision No. 24749 (37 C.R.C. 478) modified and amended the above provision "so as not to require Pacific Gas and Electric Company to amortize and write off any of the unusual and extraordinary expenses * * * during the year 1932" and further amended the above order "so as to permit Pacific Gas and Electric Company to amortize and write off, during the years 1933, 1934 and 1935, the unusual and extraordinary expenses * * * not yet amortized or written off, * * * ."

The question thus presented as to the future allowance of cut-over expense affects Fresno only. The cut-over expense in the smaller communities was charged when incurred to operating expense. The three-year period contemplated in the initial order expires late this year and for rate-making purposes it must be assumed that the entire cut-over expense incurred by the company, one hundred twenty thousand twenty-three dollars and eighty-seven cents ($120,023.87), has been recovered substantially by the company from rates heretofore charged. There is no merit in the contention that the above mentioned supplementary orders relative to company accounting practice in amortizing said cut-over expense should be interpreted as being a guarantee or commitment that operating expenses should be augmented in succeeding years in the fixation of rates. Permission to defer the inclusion of the cut-over expense in operating expenses as and when incurred was merely a financial convenience to the company and purely an accounting matter. The orders heretofore issued relative to this expense were issued ex parte without notice to the affected cities or other parties in interest and obviously could not fairly be interpreted as applicable to future rate proceedings or otherwise prejudicial to the rate payers. Equitable dealing as between company and consumer must control the disposition of this matter and no allowance for cut-over expense beyond 1933 will be made.

Commission and company witnesses were not in dispute with respect to the depreciation annuity to be set aside on a six per cent sinking fund basis to provide for the ultimate retirement of gas production equipment at the Fresno plant. These annuity rates reflect a shortening of the lives heretofore used by the company despite the fact that this plant is now used solely as a standby plant. Such reduction in lives is warranted only on the distinct understanding that, when the reserve for accrued depreciation equals the investment less salvage, such property investment will be eliminated from fixed capital and the rate base.

No objections were offered to the use of the historical cost of these properties as a basis for testing rates. There was no difference of opinion with respect to the historical cost of the actively operating property, but there was disagreement over the inclusion in a rate base of the investment in the Fresno gas production equipment, the building and site formerly occupied as an office by Pacific Gas and Electric Company but now leased to Fresno County, the cost of excess capacity in the transmission line constructed between Fresno and Merced, the unamortized portion of cut-over expense and the disposition to be made of the investment in the abandoned gas production facilities in Merced, Madera, Fowler and Selma.

The weight of the evidence indicates that the investment in Fresno gas production facilities should remain in the present rate base subject to the conditions heretofore mentioned. The Fresno office building obviously is non-operative and has been so considered by the company by its execution of a lease thereon for non-utility purposes. Furthermore, the operating expenses for the gas department include rental for the space occupied in the San Joaquin office building and the rental received for the former quarters was not included in the revenue estimates submitted.

The proper disposition to be made of the investment of approximately five hundred thousand dollars ($500,000) in the gas transmission line extending from Fresno to Merced offers some difficulty. The line, some fifty miles in length, is eight inches in diameter except for about eight miles which is twelve inches in diameter. The twelve-inch section was installed in anticipation of the construction of a gas line from the Kettleman Hills to the proposed Herndon steam electric power plant. Gas consumers should not be burdened with charges on account of the extra construction for the benefit of the electric department. The capacity of the line as constructed is greatly in excess of presently existing requirements of San Joaquin consumers served by it but, in view of the conclusion reached with respect to rates in the area served by this line, it becomes unnecessary to determine what portion of the investment therein might be considered unnecessary for prudent operation. There is no warrant for including in the rate base a sum representing the portion of cut-over expense said to be unamortized as of the present time.

There is no merit to the contention that expense allowance for the future should be increased to provide a fund for the purpose of amortizing the portion of the cost of gas manufacturing equipment not already accumulated in the depreciation reserve with respect to Madera and Fowler. These properties were purchased by Pacific Gas and Electric Company just prior to, or in anticipation of, the introduction of natural gas. In Madera the depreciation reserve as accumulated by the Madera Gas Company was written down upon sale, while the Fowler properties were recorded on the books at an estimated historical cost much in excess of the price actually paid for the properties.

The production facilities located in Merced and Selma, now of no further use, were formerly used to supply those communities with manufactured gas. The evidence indicated the amounts to be amortized in Selma at twenty-six thousand two hundred and three dollars ($26,203) and Merced eighty-nine thousand six hundred fifty-two dollars ($89,652), exclusive of any salvage that might be secured upon physical abandonment. These properties have been in the hands of the San Joaquin Corporation for many years. The rule enunciated by this Commission in City and County of San Francisco vs. Pacific Gas and Electric Company (14 C.R.C. 233, 258-259) is applicable to the present proceeding and no allowance will be made herein for amortization of the sums indicated. The record does not disclose any insufficiency in the present depreciation reserves of the combined gas properties to adequately care for the immediate retirement of the production units in question.

The cost of bond, preferred stock, depreciation reserve and currently borrowed moneys does not exceed 6.45 per cent, the highest cost appearing in the calculations of the Commission witness. Under present conditions a fair return on this property is 6-2/3 per cent. On the property as a whole, present returns exceed this amount. In Bakersfield and Fresno, earnings are at a rate in excess of a fair return, while the remaining areas earn less than the average rate and not more than a fair return. Rate reductions will be ordered therefore with respect to schedules limited to Bakersfield and Fresno. After giving effect to the reductions ordered herein, the San Joaquin gas department will earn not less than 6-2/3 per cent on a rate base representative of the maximum amount reasonably to be considered for the entire property, namely, five million nine hundred fifty thousand dollars ($5,950,000).

In such areas as are unaffected by this order, rates are as high as the service will bear and it seems certain that adjustments in such rate schedules would soon redound to the benefit of the company. Existing initial rates are at levels which offer a barrier to the development of a substantial gas load but present earnings are not such that this Commission may legally order reductions. Though we are convinced of the wisdom of reductions in rates, the initiative should come from the company.

The territory to the south and southeast of Fresno, except Selma, Fowler and Sanger, is supplied with gas by Southern California Gas Company at rates substantially lower, as is shown in the accompanying table, than are the rates in the portions of San Joaquin Valley served by the San Joaquin Company.

COMPARISON OF COST OF GAS FOR DOMESTIC PURPOSES
SUPPLIED BY SAN JOAQUIN LIGHT AND POWER CORPORATION
AND SOUTHERN CALIFORNIA GAS COMPANY IN SAN JOAQUIN VALLEY

Consumption Cubic Feet Per Meter Per month	San Joaquin Light and Power Corporation				Southern California Gas Co.
	Schedule A-M Merced	Schedule G-11-N Madera Inc.	Schedule G-10-N Sanger, Fowler, etc., Inc.	Schedule A-S Selma	Schedule E-1 (1)
Minimum bill or service charge	$1.20	$1.00	$1.10	$1.20	$1.15
1,000	1.90	2.20	2.40	1.96	1.65
2,000	3.57	3.40	3.70	3.72	2.80
3,000	4.62	4.60	5.00	5.46	3.96
4,000	5.67	5.80	6.30	6.28	4.66
5,000	6.72	7.00	7.60	7.08	5.36
10,000	10.72	11.00	12.10	11.08	8.86
15,000	14.72	15.00	16.60	15.08	11.66

(1) The amounts shown below are computed on the new schedule of rates effective as of July 1, 1933. (See Decision No. 26075.)

-oOo-

A reduction of ten cents per thousand cubic feet on the first block of 3,000 cubic feet will be ordered on Schedule B applicable to domestic and commercial service in Bakersfield. Bakersfield will then have one of the lowest domestic natural gas rates in the State. Low rates, long effective in this city, have resulted in average use per consumer not equalled elsewhere in the State by domestic consumers. The second block of 4,800 cubic feet on Schedule G-3-N, effective in Fresno and contiguous suburbs, will be divided into two parts. The first of 2,800 cubic feet will be reduced five cents (5¢) and the next 2,000 cubic feet reduced ten cents (10¢), through its addition to the present third block of 25,000 cubic feet. The maximum reduction per meter per month in Fresno will be thirty-four cents (34¢) and in Bakersfield thirty cents (30¢). The differential between the initial 200 cubic feet of consumption in incorporated and unincorporated territory will be continued. The minimum payment under both schedules will be left undisturbed.

Witness for the California Farm Bureau Federation proposed a schedule for gas to be used for agricultural power service. The acceptance of the proposed schedule is warranted but with rates slightly in excess of those suggested by the witness.

I recommend the following form of Order.

O R D E R

The Railroad Commission having instituted a proceeding upon its own motion inquiring into the rates, rules, regulations, charges, classifications, contracts, practices, service and operations, or any of them, applicable to natural gas service on the system of the San Joaquin Light and Power Corporation, and the matter having been submitted and being now ready for decision,

The Railroad Commission of the State of California hereby finds as a fact that the gas rates of the San Joaquin Light and Power Corporation are unjust and unreasonable in so far as they differ from the gas rates herein provided and the rates herein promulgated are declared to be just and reasonable rates for the future.

Basing its Order on the foregoing finding of fact and on the findings of fact in the Opinion preceding this Order,

IT IS HEREBY ORDERED that

(1) Based on all meter readings taken on and after August 1st 1933, San Joaquin Light and Power Corporation shall charge and collect for gas service supplied

under filed schedules the rates set forth in Exhibit "A" attached hereto and made a part hereof in lieu of corresponding rates now effective.

(2) The effective date of this Order is twenty (20) days from the date hereof.

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 10th day of July, 1933.

C L Seavey
Leon O Whitsell
M. J. Carr
M B Harris
Wm J Carr

Commissioners.

EXHIBIT "A"

SCHEDULE B

GENERAL SERVICE NATURAL GAS

Applicable to Domestic and Commercial Service.

TERRITORY

Applicable to City of Bakersfield.

RATE

First	3,000	cu.	ft.	per	meter	per	month	----	$.60	per	M	cu.	ft.
Next	7,000	"	"	"	"	"	"	----	.50	"	"	"	"
Next	90,000	"	"	"	"	"	"	----	.35	"	"	"	"
Over	100,000	"	"	"	"	"	"	----	.25	"	"	"	"

MINIMUM CHARGE

$.85 per meter per month.

SCHEDULE G-3-N

CHARACTER OF SERVICE

Natural gas for light, heat and power service will be supplied, of a heating value as specified and under conditions provided for in Rules and Regulations filed with the Railroad Commission of the State of California.

TERRITORY

City of Fresno and contiguous suburbs supplied from City of Fresno distribution system.

RATE

First 200 cu. ft. or less per meter per month:

Incorporated territory----------$0.70
Unincorporated territory-------- 1.00

Next	2,800	cu.	ft.	per	meter	per	month	--8.0¢	per	100	cu.	ft.
Next	27,000	"	"	"	"	"	"	--7.5¢	"	"	"	"
Next	170,000	"	"	"	"	"	"	--6.0¢	"	"	"	"
All over	200,000	"	"	"	"	"	"	--5.0¢	"	"	"	"

SCHEDULE G-3-EN

AGRICULTURAL POWER SERVICE

Available upon application to consumers located along existing mains having a delivery capacity in excess of the then existing requirements of domestic and commercial consumers for natural gas used for agricultural power service, including gas used for heating incubators and brooders, but excluding domestic use.

TERRITORY

Fresno, Dinuba, Selma, Madera and Merced Districts.

RATE

Annual Consumption:	Rate per 1000 C.F.
First 12,000 cu. ft. per HP	40¢
Next 12,000 cu. ft. per HP	25¢
All over 24,000 cu. ft. per HP	18¢

MINIMUM CHARGE

April to October, inclusive, $5.00 per meter per month.
November to March, inclusive, $1.00 per meter per month.

SPECIAL CONDITIONS

(a) For the purpose of this schedule, the horsepower of engine capacity will be determined by manufacturer's rating, or at the option of the company, by test or estimate.

(b) Under this schedule the agricultural or service year shall commence with the regular meter reading in April, and end with the regular meter reading taken in April of the succeeding year.

(c) Minimum charges for twelve months continuous service are to be accumulated, and will be $36.00 per year.

(d) Consumers served under this schedule have priority in the use of gas over consumers served under industrial schedules carrying lower rates, at times when there may be insufficient gas to supply demands of all consumers.

(e) Service to domestic, commercial and essential industrial consumers, and service to other public utilities, have priority over service under this schedule in case of a shortage of gas.

(f) If, in the judgment of the company, it is not necessary to install mains in order to render service under this schedule, a contract for a period of one (1) year will be required as a condition precedent to service under this schedule.

(g) When and if, in the judgment of the company, it becomes necessary to install mains for the purpose of rendering service under this schedule, a contract for a period of from three (3) to five (5) years will be required as a condition precedent to service under this schedule, provided, however, that contracts for a period in excess of three (3) years shall be submitted to the Railroad Commission of California for approval.

SCHEDULE G-12-BN

AGRICULTURAL POWER SERVICE

Available upon application to consumers located along existing mains having a delivery capacity in excess of the then existing requirements of domestic and commercial consumers for natural gas used for agricultural power service, including gas used for heating incubators and brooders, but excluding domestic use.

TERRITORY

Bakersfield District.

RATE

Annual Consumption:	Rate per 1000 C.F.
First 12,000 cu. ft. per HP-------------------	35¢
Next 12,000 cu. ft. per HP-------------------	21¢
All over 24,000 cu. ft. per HP-------------------	15¢

MINIMUM CHARGE

April to October, inclusive, $5.00 per meter per month.
November to March, inclusive, $1.00 per meter per month.

SPECIAL CONDITIONS

(a) For the purpose of this schedule, the horsepower of engine capacity will be determined by manufacturer's rating, or at the option of the company, by test or estimate.

(b) Under this schedule the agricultural or service year shall commence with the regular meter reading in April, and end with the regular meter reading taken in April of the succeeding year.

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(e) Service to domestic, commercial and essential industrial consumers, and service to other public utilities, have priority over service under this schedule in case of a shortage of gas.

(f) If, in the judgment of the company, it is not necessary to install mains in order to render service under this schedule, a contract for a period of one (1) year will be required as a condition precedent to service under this schedule.

(g) When and if, in the judgment of the company, it becomes necessary to install mains for the purpose of rendering service under this schedule, a contract for a period of from three (3) to five (5) years will be required as a condition precedent to service under this schedule, provided, however, that contracts for a period in excess of three (3) years shall be submitted to the Railroad Commission of California for approval.