Decision No. 13332

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

ORIGINAL

In the Matter of the Application of Western States Gas & Electric Company, a corporation, for an order increasing its electric rates in its Stockton Division.	Application No. 6886.
In the Matter of the Investigation on the Commission's own motion into the reasonableness of rates of the Western States Gas & Electric Company for service of gas in the City of Stockton.	Case No. 1664.

Chickering & Gregory by Allen L. Chickering and Evan Williams; Nutter, Hancock & Rutherford, by W. B. Nutter for Western States Gas & Electric Company.

Stanley M. Arndt for Intervenors and Stockton Merchants Association.

Stewart & Louttit and Stanley M. Arndt for National Paper Products Company.

Chas. W. Slack and Edgar T. Zook by O. K. Patterson for Natomas Company of California.

M. P. Shaughnessy and J. Leroy Johnson for City of Stockton.

T. C. Nelson for California Farm Bureau Federation.

WHITTLESEY, COMMISSIONER.

O P I N I O N

Western States Gas & Electric Company is a California Corporation supplying gas and electricity to the cities of Stockton and Eureka and electricity in the rural districts surrounding these cities and in and around the city of Richmond. The

Company is controlled and managed, through indirect stock ownership, by the Byllesby Engineering and Management Corporation of Chicago.

The present proceedings involving gas and electric rates are confined to the Stockton Division. The electric business of this Division has some 20,700 consumers and the system covers the territory from Stockton to just south of Sacramento and east to a line drawn through Placerville, Plymouth and Jennie Lind. Up to January 1924 approximately 37% of the electric energy requirements has been produced in the Company's hydro plant located on the American River just north of Placerville. With the exception of a small amount generated by a steam plant in Stockton, the remaining energy has been purchased from Pacific Gas and Electric Company and Great Western Power Company. The status of the Electrical Department will be radically changed during 1924, as the Company will bring into operation an additional 20,000 K.W. hydro plant. This is known as the El Dorado project.

The gas business of this Division is limited to the City of Stockton where a mixed gas of approximately 65% manufactured and 35% natural gas is sold to some 11,900 consumers.

The Stockton Division of the Western States Company is practically surrounded by lines of Pacific Gas and Electric Company. The lines of the Great Western Power Company are also contiguous on the north and west. Very little competition now exists, but the character of the territory served by the three companies is similar and it has been urged that no reason exists for any considerable variation in the charges for electric energy between the three companies.

The Western States Gas and Electric Company was organized in 1910 by the purchase and consolidation of several small utilities among which were the American River Electric Company and the Stockton Gas and Electric Corporation. Large sums of money were expended in 1912 and 1913 towards unifying and extending these properties so that adequate service could be rendered at a reasonable cost. This work was hastened by the application of the Oro Electric Corporation to this Commission for permission to engage in the electric business in Stockton. This application was denied, but the Western States Company was required to improve service and decrease electric rates.

History of Rate Proceedings.

The electric rates of the Western States Company have not heretofore been subject to a complete review by this Commission. During the war period and that of high prices following, the increased costs to which all utilities were subjected resulted in several proceedings in which both gas and electric rates of this Company were increased to offset greater costs of operation, but there was no valuation of property nor complete determination of reasonable rates made. The present electric rates were authorized in Decision No. 8459 (19 C.R.C. 153) dated December 20, 1920.

On June 3, 1921, the Company filed its application No. 6886 for an increase in electric rates, alleging that it was not earning the rate of return found reasonable by the Commission. On June 27, 1921, a protest to this requested increase was filed on behalf of W. D. Buckley and other consumers together with counter applications asking for reductions in both gas and electric rates. On the same day, as a result of a conference with the Stockton Chamber of Commerce, the Company made formal request for dismissal of its application. The Commission refused to dismiss the proceeding on account of the counter applications which were amended and refiled on August 4, 1921. To avoid certain technical difficulties, the Commission then initiated a proceeding on its own motion, Case No. 1664, an investigation into the gas rates in the city of Stockton. This was then consolidated for hearing with the electrical application No. 6886.

On August 3, 1921, there was a reduction in the price of oil of 25¢ per barrel, and this coupled with prior reductions made the cost of oil 60¢ less per barrel than the price taken into consideration in fixing the gas rates authorized by Decision No. 8459. The Company thereafter filed a supplementary application asking that gas rates be reduced by 5¢ per thousand cubic feet. As, however, Application No. 6886 and Case No. 1664 had already been set for hearing, this supplementary application was consolidated therewith. Hearings were held on September 6th, 7th and 13th, 1921. This part of the proceeding was held to be of an emergency nature, and its submission was based on the stipulation that the entire matter of gas and electric rates would be reopened upon completion of an appraisal of the physical property. The preliminary order (Decision No. 9830) in the present proceedings denied an emergency increase in electric rates, and authorized gas rates which would vary with the change in cost of oil; a differential of 1½¢ per thousand cubic feet for each 10¢ change in the price of oil per barrel being established as an automatic feature in the rate, the base price of oil being $1.70 per barrel.

Since that date two reductions in gas rates have been made under this automatic clause, the first by Decision No. 10786, dated July 25, 1922, and the second by Decision No. 10891, dated August 29, 1922. Rates are at present based upon oil at $1.20 per barrel.

Valuations of both gas and electric properties of the Company in the Stockton Division were completed and filed with the Commission early in 1923. Proceeding was thereupon re-opened and hearings held in Stockton on March 27th and 28th, May 24th and 25th, and July 17th, 18th and 19th. On July 19th, the matter was submitted subject to a further report by the Commission's staff on maintenance accounts and the filing of answering briefs by counsel. This report has been made, briefs have been filed and the matter is ready for decision.

Valuation.

Two valuations were submitted in evidence, one by Mr. E. Uhlendorf for the Company and one by Mr. R. M. Vaughan, the Commission's Valuation Engineer. Both valuations are based upon an inventory made by the Company and checked by the Commission's engineers. The inventory was of December 31, 1921, and in both instances the pricing was done by applying average material and labor costs covering the period from January 1, 1912, to January 1, 1922. The unit costs were developed from a voucher analysis made jointly by the Company's and the Commission's engineers and by comparison of unit costs on other appraisals. Both valuations include overhead and indirect cost percentages as derived by Mr. Vaughan in a prior valuation of the Pacific Gas and Electric Company. The final valuations presented differ by approximately $200,000.00, the totals reported for the physical plant being as follows:

Properties of Western States Gas & Electric Co.
Stockton Division

Exclusive of Intangibles

As of 12/31/21

Valuation by	Uhlendorf	Vaughan
Electric Department	$ 5 434 369	$ 5 361 160
Gas Department	2 126 724	2 005 514
Total	$ 7 561 093	$ 7 366 674

In further discussion of the value of this property, Mr. Vaughan's figures will be used.

ELECTRIC DEPARTMENT

The California Farm Bureau Federation has raised certain objections to the valuations as presented, it being urged that the electric valuation was in reality, except for certain hydro and steam plant equipment, a reproduction cost estimate based upon ten year average prices from 1912 to 1921 rather than an estimate of the historical reproduction cost; that the overhead and indirect costs had been applied to the valuation without regard to the actual expenditures incurred by the Company; that no allocation of capital to the Water Department had been made; that certain property constructed through operating expenses had been included in capital; that labor costs for transmission line construction in the mountain district were unreasonably high; and that the unit labor costs applied had been arbitrarily increased over those of the Pacific Gas and Electric Company historical reproduction cost estimates.

Relative to the unit costs, it appears that, exclusive of certain of the larger units included in the hydro-electric and steam plant construction, the valuation was based upon average prices for the ten year period from 1912 to 1921. This average was used, due partly to lack of sufficient records to determine the prices prior to 1912. It appears to have been Mr. Vaughan's judgment, after comparing the prices determined from an analysis of costs actually incurred with very complete studies made in the Pacific Gas and Electric Company appraisal, that the price level used resulted in a close approximation of the probable historical reproduction costs of the properties.

As to the general application, it does not appear that this conclusion has resulted in an unreasonable valuation, but in the particular instance of the American River flume and ditch, the application does not appear to be entirely justified. This flume was built in 1903, partly reconstructed in 1912 and enlarged in 1915. The unit costs allowed in the valuations were based upon a study of prices paid for material purchased mainly for maintenance, and give considerable weight to the higher prices prevailing from 1916 to 1921. It does not appear that the prices of material used in maintenance should be the basis for an estimate of the historical reproduction cost, and a deduction should be made of $45,000. from the basic cost and $64,000. from the total cost including indirect charges and overheads to correct the appraisal to conform to the historical reproduction cost.

In the appraisal submitted by Mr. Vaughan, the overhead allowances have been based upon those found reasonably applicable to similar property in other cases rather than that which might be determined from the actual charges made by the Western States Gas and Electric Company. In the charges of the Company, no amount has been set up for contingencies and omissions which would be applicable in the case of an inventory and appraisal, and it appears further that there is some doubt as to correctness of actual segregation of charges between capital and operation in the Company's accounts. The overhead charges allowed are reasonable capital items. Adjustment for any erroneous accounting should be made in operating expense estimates.

The Farm Bureau urges that some segregation of capital should be made between the Water and the Electric Departments. From the evidence, it does not appear that, as to the property considered in operation during the year 1923 used herein in measuring the return to the Company, any allocation should be made to the Water business, provided the earnings from water sales are included as revenue. Some allocation should probably be made were consideration being given to the investment in the new El Dorado development which, however, will not be operative until 1924.

The Farm Bureau urges that the Company has charged to maintenance and operating expenses in some instances more or less complete reconstruction of large units of its flume and transmission lines, and that in the valuation presented this property is included, and, unless deducted, the Company will be able to capitalize plant actually paid for through rates. As to the flume, it appears that no duplication can be considered as existing in view of the reduction in amount allowed herein, and in view of the further fact that lumber used in patching the flume, which is lumber in excess of the standard construction, has not been included in the inventory. The criticism of the transmission and distribution accounts is based mainly on the tendency of the Company to charge work to operating expenses that should be charged in part to capital and in part to depreciation. There is no evidence which would justify any change in the valuation figure on this account, but it is apparent that further consideration should be given to this matter in its relation to reasonable operating expense.

The transmission lines were divided by Mr. Vaughan between mountain lines and valley lines. A labor cost for mountain line construction was estimated at twice that for valley construction. In the unit cost analysis, freight, hauling and unloading are included in material costs, leaving for labor cost the cost of distribution of poles from the point of unloading, cost of digging holes and setting poles. Without question, a considerable additional cost of labor would be expected for mountain construction owing to cost of distribution and probable increased difficulties due to rock formations, etc. The country traversed by the transmission lines by the Western States Company is not as rough in general as that for which the Commission in the past has found an allowance of 50% increase in labor cost to be reasonable. Considering the evidence, I am convinced that an allowance of only 50% for labor costs over valley line construction should be made. A deduction on this account of $20,649. from the basic costs and $24,800. from the appraisal including overhead costs will be made.

The record shows that great difficulty was experienced in deriving accurate labor costs. Reliable information was available for the period from 1916 to 1921. It appears, that after investigating the costs of construction as experienced by the Company, and comparing these costs with the costs determined for the same period on the Pacific Gas and Electric system, it was concluded that a reasonable average unit cost for the property of the Western States Company would be represented by a cost 10% higher than the historical unit costs applied to the Pacific Gas and Electric Company property. The 10% increase was made applicable for the purpose of giving weight to the increased cost of labor for the years 1920 and 1921, which were covered by that inventory and appraisal of this Company, but which higher unit costs period was not considered in connection with the Pacific Gas and Electric Company appraisal. It appears that the allowances made were reasonable, and that the final appraisal made represents as close an approximation as could reasonably be obtained, of the probable historical reproduction costs of the property, although in actual figures it is a reproduction cost new based on a ten year price level.

Water Rights.

The Company claims to own the rights to 150 second feet of water on the South Fork of the American River, of which 45 second feet is subject to a prior right. Four exhibits were presented, calculated on different bases, leading to a value for this water right. In addition the Company relies on the testimony of Mr. Erickson that its value is close to $450,000. and the testimony of Mr. Kahn that the Company has agreed to pay $400,000. for the release of the 45 second feet now held by the El Dorado Water Corporation.

The Commission has held in a previous case that "if a utility claims a value for water rights it must sustain the burden of demonstrating such value." (9 C.R.C. 603). Three of the calculations submitted are based upon production costs as they are, as against costs as they would be if steam power were used or if the entire energy requirements of the Company were purchased from other producers. As is usual with such calculations, by a slight change in the estimates and assumptions upon which they are based, they can be made to indicate a negative value for the water rights. The Commission has always held that such methods are unsound. The fourth exhibit attempts to show that the Byllesby interests paid $718,442. more for the properties of the American River Electric Company than the actual physical property was worth as revealed by a valuation made nearly three years later. By assuming that a portion of this amount represented going value, the claim is made that $533,000. was paid for water rights. In regard to this 1913 valuation, upon which we are asked in this instance to place reliance, the Company says in its brief, in a discussion of the value of the American River flume:

> "...it will be noted that the 1921 valuation, which was very carefully prepared and checked, found greater length for flume and ditch than did the 1913 valuation, and it may be safely assumed that the under valuing of this part of the property in 1913 was due to many errors in the work...."

Aside from the Company's doubtful position in urging a claim for value based upon an appraisal which it later argues is unreliable, the acceptance of such a figure would be dangerously close to accepting the purchase price paid for the properties in 1911.

The only other claim which must be considered is the contract entered into by the Company for the payment to El Dorado Water Corporation for release of the obligation to supply 45 second feet above the new power plant. The record shows that this water is used for irrigation, domestic and mining purposes, and that it has been the basis for the building up of an agricultural community. The homes and the value of the property of the users of this water, who are the members of the El Dorado Water Corporation, depend upon this water and it would not be relinquished except upon a payment sufficient to replace it by another supply or equivalent to the value of the consumers' improvements now dependent upon it. The right now in question is that of using for power purposes water that is later released and there is no evidence to show that any other use could be made of the water under this condition, nor that this right could be disposed of at the claimed value.

The Company has failed to demonstrate a value for its water rights or to satisfactorily show their original cost, and no allowance will be made herein.

Franchises and Organization Expense.

The Company's annual report shows that the various franchises held by the Company have cost $1,794., and this amount is included in capital herein.

The Commission has always recognized the validity of claims for organization expenses and sums varying from one-fourth to one and one-half percent. of the physical plant value have been allowed. In this case there is no direct evidence as to the actual expense incurred, although the Company claims $67,709., this being one per cent. of the physical valuation. It is urged by the Farm Bureau that an arbitrary sum should not be allowed, due to the possibility of all such expenses having been a part of the Byllesby Company services and charged to operation. Inasmuch as the Commission refuses to recognize the Byllesby charges, except in relation to the actual value received, this objection is not valid. Three-quarters of one percent. will be allowed in the rate base for organization expense.

Development Cost.

The Company claims $450,000. in capital as the cost of developing its electric business, basing its claim upon the testimony of Mr. Erickson, of the Byllesby Company, and Mr. Alley, an employee of the Western States Company. An exhibit was introduced calculating a development cost by two different methods, both based upon the idea testified to by Mr. Erickson that an electric plant should be on a paying basis in four or five years. The first method works back an annual rate base from the 1921 valuation and shows a deficit of $357,963. at the end of the fifth year from the time of purchase, based upon required net earning for interest and depreciation of 10.5 per cent. The annual deficit is compounded at 8½% interest. Mr. Johnstone, an Assistant Engineer of the Commission, presented in evidence a calculation prepared on the same theory as that presented by the Company, but reducing the required earnings to the more reasonable figure of 8½%, based upon cost of money at 6%, and depreciation at 2½%. On this basis a surplus is acquired, and there is evidently no showing of actual loss below the cost of money having been incurred. The second computation by the Company is a theoretical study of the cost of the construction and development of a business of this kind based upon a two-year construction period and a three-year development period. The figures therein are based largely on hypothetical estimates, and cannot be said to even simulate actual conditions. Mr. Alley testified to the expense incurred by the Company in 1911 for the purpose of acquiring new consumers. Electric appliances were given away and houses were wired free. Inasmuch as Mr. Kahn testified later that the cost of this campaign was charged to operating expenses, and Mr. Johnstone has shown that the Company earned over 8½% for interest and depreciation during this period, this cannot now be claimed as development cost. No allowance will be made herein for development cost.

Rate Base.

Table No. 1 shows the development of the rate base for the calendar year 1922. The claims of the Company, those of the Farm Bureau, and the rate base found reasonable herein after a careful consideration of the evidence, are shown in parallel columns. The additions and betterments for 1922 include an item of $687. reported by Messrs. Whitaker and Johnstone of the Commission's staff as being deductible from operating expense account E-51 and chargeable to capital in accounts C-14 and -15.

An inventory of materials and supplies as of December 31, 1921, made in connection with Mr. Vaughan's valuation, gives a figure of $153,251. The Company's inventory as of December 31, 1922, shows a value of $157,300. There is no evidence to show what part of this material should be allocated to the construction department, or whether the amount of material on hand is reasonable. The average percentage of fixed capital allowed by the Commission for materials and supplies for operations, in five recent electric cases, has been 1.4%. This utility has at present a greater proportion of distribution property than other utilities considered. It would appear, under the conditions, that 1-3/4% should be sufficient in this case. This amounts to $94,000.

Working cash capital has been computed as one-sixth of the operating expenses reasonably incurred, exclusive of purchased power, taxes and insurance, plus one-twelfth the cost of purchased power. From this has been deducted one-fourth of the state tax accrual for the year.

TABLE NO. I
Rate Base - Year 1922.
Electric Department - Western States Gas & Electric Co.

	Company	Farm Bureau	Found Reasonable Herein
Organization	$ 67 709.	$ ---	$ 40 000.
Franchises	---	---	1 794.
Physical Value 12/31/21	5 434 369.	4 631 000.	5 272 360.
+ 1922 Additions	146 576.	182 580.	182 922.
Less line extension Deposits	---	---	30 000.
Sub-total	$5 648 654.	$4 813 580.	$5 467 076.
Materials & Supplies	153 252.	96 272.	94 000.
Working Capital	169 998.	50 260.	71 956.
Development Cost	450 000.	---	---
Water Rights	450 000.	---	---
Total Rate Base	$6 871 904.	$4 960 112.	$5 633 032.

Since the submission of this proceeding, there has become available the operating statements of the Company together with statements of additions and betterments for the year 1923. In view of this further information which, in accordance with the understanding at the proceeding, may be considered by the Commission, it appears advisable that the year 1923 be used as a basis for determining the return and reasonableness of rates of this Company rather than the year 1922. Adding to the rate base for 1922, set forth above, one-half the reasonable additions and betterments in 1923, the rate base for the year 1923 is found to be as set forth in Table No. 2 below.

TABLE No. 2

Rate Base for the Year 1 9 2 3.

Electrical Department - Stockton Division

Western States Gas and Electric Co.

Organization	$ 40 000.
Franchises	1 794.
Physical Property 12/31/21	5 272 360.
Additions and Betterments 1922	365 844.
One-half Additions and Betterments 1923	419 347.
Less line extension deposits	30 000.
Sub-total	6 069 345.
Material and Supplies	102 000.
Working Cash Capital	74 000.
Total Rate Base	$ 6 245 345.

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Depreciation.

Mr. Paul Thelen has made a study, for the Commission, of the reasonable depreciation requirements of both the gas and electric departments. Based upon the $5,259,197. of depreciable electric property shown in Mr. Vaughan's valuation of Dec. 31, 1921, Mr. Thelen calculates an annuity of $97,714.66 and a reserve of $1,355,905. as of June 30, 1923. The calculation of annuity is made on the 6% sinking fund method and averages approximately 1.86%.

Notwithstanding that allowances in excess of this percentage have been used in previous rate cases, the Company had credited to this reserve up to December 31, 1922, only $780,000. for its entire system. Total charges against this reserve to December 31, 1922, were $290,135.88 of which $162,243.62 were for the Stockton Division. While it must be borne in mind that the basis for former allowances by the Commission and accruals by the Company are radically changed by reason of the present valuation, it is evident that the Company has inadequate reserves back of its property, and that it should be required to make some sacrifices to build up this deficiency. Reasonable requirements will be made in the order herein.

A great deal of testimony has been taken regarding the practice of the Company in allocating the cost of replacements between depreciation and maintenance. Mr. Thelen's annuities have been computed according to the standard practice of the Commission, and should be changed only in such particulars as are unavoidable when consideration is taken of fixed accounting methods. Where possible, discrepancies and duplications will be adjusted in operating expenses.

Depreciation on automobiles is fully covered by charges to operating expenses, as is also the replacement of small tools. The annuities for these items can be deducted. The actual charges against the reserve for the replacement of meters and transformers have been less by far than the annuities set up by Mr. Thelen. This is partially accounted for by the fact that material only is retired and also by the possibility that much of this equipment is still relatively new. Moreover there have been no radical changes in design during recent years. These annuities will be left unchanged for the present, but the Company will be expected in the future to retire the labor of installation, as originally capitalized, as well as the material itself.

These deductions, together with changes resulting from the altered valuation figures, lead to a revised annuity of $82,500. on property as of December 31, 1921, $85,500. on the average capital for the year 1922, and $92,500. for the average capital for 1923. The estimate of accrued depreciation on June 30, 1923, for the average capital for 1923 is similarly revised to $1,240,000.

Operating Expense.

The actual operating expenses incurred during the years 1919 to 1922, inclusive, are a part of the record in this proceeding. Mr. Johnstone made a study of these expenses for the Commission, and submitted in evidence revised figures for a normal year, based upon 1922 conditions, and also an estimate for the year ending June 30, 1924. The Farm Bureau, as a part of its brief, has also submitted an estimate of reasonable expenses for the year 1922. There is now available actual records of revenues and expenses for the year 1923.

As heretofore stated, it appears reasonable to use the conditions of the year 1923 as a basis to measure the reasonableness of existing rates. This is done, although the operating conditions will materially change in 1924 as far as production of power is concerned. The evidence indicates, however, that the general effect of the change which will occur by reason of the completion of the El Dorado plant will at least temporarily tend to increase, rather than to decrease the cost of power. The analysis of operating expenses will include both the year 1922 and the year 1923.

It is evident from the testimony that some adjustment must be made in expenditures actually reported by the Company, as some accounts contain expenditures which would not occur under normal conditions. Maintenance charges must also be harmonized with the depreciation annuities herein required. Table No. 3 sets forth the reported operating expenses for the years 1922 and 1923, and the revised estimates of expenses for these years which, from the evidence in this proceeding, are found reasonably chargeable to operating expenses in the determination of the rates.

Production expenses have been revised to reflect the present rates for power purchased, and to eliminate all but one year's charge for rental of federal lands. Oil costs to the steam plant have been computed upon the present price of oil paid by this Company. No change has been made in the maintenance cost of the American River Power Plant flume, as it is evident that this structure is nearing the end of its useful life, and the very high cost of repairs is not likely to decrease until the flume is renewed. Transmission expenses have been reduced somewhat in the account "Inspection and Patrolling," and the account "Repairs to Overhead Transmission System" has been reduced by an amount reported by Mr. Whitaker and Mr. Johnstone as covering reconstruction work improperly charged to operation. Under distribution expense the accounts "Repairs to overhead distribution lines" and "Repairs to street lighting system" have been adjusted in a like manner.

A large part of the testimony in this case concerns the "Byllesby Operating Fee," a charge made by the Byllesby Engineering and Management Corporation of 2½% of the gross revenue of the Company for supervision and management. The larger portion of the evidence presented by the Stockton Merchants Association bears on this subject, and the brief of its Attorney is largely directed to urging that the charge should be entirely deducted. The Farm Bureau reaches the conclusion that a lump sum of $15,000.00 would be a sufficient allowance. Two exhibits dealing with this matter were presented by the Commission's Engineering Department. One exhibit compared the general and commercial expenses of the Western States Company with those of other California utilities, and the second reduced the amount of this fee from 2½% to 2% of the gross revenue of the Company based on a consideration of its possible value. The Company has introduced five voluminous exhibits in an attempt to justify the charge, and much of its brief is devoted to the same purpose. It would be useless to attempt to review herein all of this testimony. To a large extent the claims of the Company are of a general nature, and it is apparent that the determination of the reasonableness of this charge is a difficult task. It does not appear that the Commission can accept the basis of allowing a percentage of gross revenue as the charge to operating expenses. On this basis changes in rates would result in changes in this charge without any comparable change in the value of the services rendered. The comparison of administrating costs of this and other companies cannot be strictly relied upon as a measure, at least unless full consideration can be given to the value of the services rendered. While all California utilities keep their books according to a prescribed classification of accounts, the interpretation of the classification by different accountants leads to a varying segregation, which throws an element of uncertainty about any such comparison. The Byllesby Engineering and Management Corporation receives from the Western States Company 2½% of the gross revenue as a managerial fee, and in addition, the Company maintains a local general staff and a local general manager who receives a salary considerably in excess of that generally paid to local division managers by other utilities. I am convinced that the local Company's expenses are unreasonable and that a duplication exists to the extent that the Company is paying a managerial fee and in addition the salary of a high-priced general manager. If Byllesby Corporation were to pay the salary of the local General Manager out of its fee and not charge it to the local Company, the resultant amount for general and commercial expenses would be reasonable as compared with the cost to other utilities, and the total cost under these conditions would represent an amount not in excess of a probable fair value of the services which it appears are rendered. I conclude from the consideration of the entire evidence that an allowance of $39,000. for general officers' salaries in the Electric Department, and $12,000. for the same account in the Gas Department for the year 1922 and a comparable amount for the year 1923 is reasonable.

Certain slight deductions in miscellaneous general expenses and injuries and damages have been made to exclude those not reasonably chargeable to operating expenses. In accordance with recent Decisions of this Commission, Federal Income Tax is included as an operating expense, but bond coupon tax has been deducted.

Revenue and Rate of Return.

The gross revenue in 1922 from electric operations was $1,523,080. and in 1923 $1,666,026., including miscellaneous operating revenues of $7,564. and $10,368., respectively. The Company reports a reduction from this amount due to non-operative revenues of $513. in 1922 and $2,231. in 1923. In Decision No.8459 (19 C.R.C. 153) the Commission called attention to the fact that the Company is not charging the full permitted rate for municipal street lighting and recommended that the reported revenue be increased by the amount of the undercharge. This amounted to $10,893.00 in 1922 and $11,635.00 in 1923.

In discussing the fact that no capital had been allocated to the Water Department, it was stated that the revenue of this department should be considered in a rate case. The water revenue derived in 1922 is reported by the Company to be $16,852. and in 1923 $12,776. The total figure for revenue used herein will be, therefore, $1,550,312. for 1922 and $1,688,206. for 1923. The revenues actually derived from electric rates, including the surcharge on municipal lighting, which was not collected, were $1,525,896. and $1,665,062. respectively.

The Company asks that it be permitted to earn an 8% return while both opposing counsel contend that 7½% is sufficient with the inclusion of Federal Income Tax in operating expenses. This figure is based on a Supreme Court decision in which a 7½% return was held to be nonconfiscatory. The Commission should not fix a rate for this Company which will yield a revenue that will just barely escape the test of confiscation. The Company is engaged in construction work and development of considerable magnitude. There is an obligation upon it to continue to adequately serve and upon the public to pay a reasonable and fair compensation for the service the Company renders. There has been no criticism of the manner in which its consumers are being served and there can be no doubt that an adequate return should be earned. The cost of money to the Western States Company has been found to be 6.74% on securities outstanding July 15, 1923. With this in mind, and considering the service rendered, a return approximating 8% on the rate base must be considered reasonable, provided the resultant rates are not too high. The present rates will, on the revised basis shown in Table No. 3 for 1922 and 1923, net the Company approximately 9 per cent.

TABLE NO. 3.

REVENUES AND OPERATING EXPENSES

ELECTRIC DEPARTMENT, WESTERN STATES GAS AND ELECTRIC CO.

	Reported		Revised to normal basis	
Revenue Existing Rates.	1922	1923	1922	1923
Electric Revenue	$1,515,003	$1,653,427	$1,525,896	$1,665,062
Miscellaneous revenue	24,929	25,375	24,416	23,144
Total Gross Income	$1,539,932	$1,678,802	$1,550,312	$1,688,206
Production Expenses	$ 516,717	$ 531,095	$ 508,800	$ 526,795
Transmission "	39,090	59,507	19,890	34,000
Distribution "	136,828	157,462	120,268	135,000
Commercial "	39,098	48,218	38,488	48,218
General "	304,141	321,779	270,537	290,268
Total Operating Expense	$1,035,874	$1,118,061	$ 957,983	$1,034,281
Depreciation Requirements			85,500	92,500
Total			$1,043,483	$1,126,781
Net for return			$ 506,829	$ 561,425
Rate Base			$5,633,032	$6,245,345
Percent return earned			9%	9%

Electric Rates.

The electric rates of the Western States Gas and Electric Company consist of two general lighting rates, one applicable to the City of Stockton and one to the territory served outside of that city - a sign lighting rate, a combination cooking and heating rate and five power schedules, together with special contracts and rates for street lighting and for certain large consumers. The territory served by the Western States Gas and Electric Company is practically surrounded by territory served by the Pacific Gas and Electric Company and Great Western Power Company, and the conditions of service are in general the same. Western States Company urges consideration of the Commission to the necessity of making effective on its system the rates which this Commission has found just and reasonable for service supplied by larger utilities serving similar and adjacent territory. Although the two systems are not in direct competition, it is apparent that a potential competition exists, requiring the Company to meet the rates of the larger companies for large industrial power service where the same are lower, and it would appear, unless important reasons exist to the contrary, that the rates in Stockton and vicinity for industrial power service to both large and small consumers should be the same as in adjacent communities provided this does not result in either too high or too low a return. The modification will increase somewhat certain consumers, but the general result will be a reduction of the revenue received from this service.

The agricultural rates of the Western States Company are in general lower than those found reasonable on the Pacific Gas and Electric and Great Western Systems. This has been due to former competition with Oro Electric Corporation and the lesser increases made during the period of high prices and to the low minimum charges applicable. The territory served is generally comparable, and although the application of the rates found reasonable for agricultural service on the larger systems will increase somewhat the bills of a considerable number of consumers, it is apparent from a general study of the matter that the rates of the Western States Company have been unreasonably low for this service, and that an adjustment should be made. It would appear that it is just at this time to make effective rates for industrial and agricultural power on the Western States System equivalent to those heretofore found reasonable on Pacific Gas and Electric Company system. The Company should place consumers now on special contracts for industrial power service on the schedules found reasonable herein. A schedule will be fixed for railway service now supplied by the Company. The lighting rates, I find, should be modified to more nearly conform to the rates for comparable territory of the other systems. The application of the rates fixed herein will reduce the total gross revenue of the Company.

GAS DEPARTMENT

Many of the conclusions reached in the discussion of the Electric Department will also be applicable to the Gas Department. Thus the deduction from depreciation of the annuities on automobiles, small tools, have also been carried out in this Department without further discussion, as have also the omission of development costs and the adjustment of General Expenses covering the Byllesby charge and general costs of management.

Rate Base

Mr. Vaughan's valuation gives a total of $2,005,514. for the physical property as of December 31, 1921. The net additions and betterments for the year 1922 were $157,149. leading to a total as of December 31, 1922 of $2,162,663. To obtain the average capital for 1923, there is added to the above amount one-half of the additions and betterments for the year 1923, or $91,227. making a figure for the average capital for 1923 of $2,253,890. The rate base will then be as follows:

Rate Base - 1923.

Gas Department - Western States Gas and Electric Co.

Average Capital 6/30/23	$2,253,890
Material and Supplies	43,490
Working Cash Capital	22,630
Sub-total	$2,320,010
Organization	15,000
Less consumers' extension deposits	-3,500
Total Rate Base	$2,331,510

Material and supplies have been taken as 2% of fixed capital and the working cash capital computed as was done for the Electric Department.

Depreciation.

The total annuity computed by Mr. Thelen for the Gas properties is $39,426. on an amount of depreciable property totalling $1,902,416. This allowance should be reduced to exclude tools and automobile depreciation, and the rate on services should be reduced. The annuity based on December 31, 1921 property should be $32,000, and for the property included in the rate base for 1923, $36,000. The accrued depreciation which should be represented in a reserve as of June 30, 1923, is estimated as $500,000, exclusive of automobile and tools.

Operating Expenses and Revenue.

A very complete analysis of the gas operating expenses has been presented in evidence by Mr. Masser, the Commission's Gas Engineer. The comparative units developed in this study indicate that the operating costs incurred by the Company are reasonable and its operation efficient. The only adjustment that need be made in the actual expense reported is in the accounts "Salaries of General Officers," "Other general expenses" and the omission of bond coupon tax.

TABLE NO. 4

Operating Expense and Revenue for
Normal Year

Based upon year ending Dec. 31, 1923.

Gas Department, Western States Gas and Electric Co.

Revenue existing rates		
	Operating Revenue	$ 488,165.
	Miscellaneous Revenue	1,964.
	Total	$ 490,129.
Production Expenses		$ 139,020.
Distribution Expenses		39,065.
Commercial Expenses		16,996.
General Expenses and Taxes		101,900.
Total Operating Expenses		$ 296,981.
Depreciation Requirements		36,000.
	Total	$ 332,981.
Net for Return		$ 157,148.
Rate Base		2,331,510.
Percent return earned		6.75
Sales M Cubic Feet		447,245.
Average rate earned per M. Cubic Feet		$ 1.09

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The gross operating revenues for the years ending December 31, 1922 and December 31, 1923 were $469,382. and $488,165., respectively. Table No. 4 sets forth the figures used herein for operating expenses and revenues as found reasonable for the year 1923, and shows that during the year 1923 the Company, on this basis, would have earned a return on its rate base of 6.75%. While this figure is based upon the actual operating conditions during the year 1923, there is no reason to believe that the future operations will increase the net earnings. In fact, at the present time, oil prices have increased 40¢ per bbl., and were this increase applicable to oil purchased by this Company the present rates would automatically be increased by 6¢ per 1000 cubic feet to offset the increased cost of fuel oil resulting. Western States Company has, however, been foresighted and obtained a contract which continues for approximately two years at the price in effect prior to the recent increases in oil.

The present rates for gas in Stockton are as follows:

First	25,000	cu.ft.per meter per month	$1.10 per M. Cu.Ft.
Next	25,000	" " " " " "	.95 " " " "
"	25,000	" " " " " "	.90 " " " "
"	25,000	" " " " " "	.80 " " " "
"	25,000	" " " " " "	.70 " " " "
All over	150,000	" " " " " "	.65 " " " "

Minimum charge: 85¢ per meter per month.

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A study of the consumption of gas in Stockton reveals that 95 per cent. of the consumers use less than 25000 cubic feet per month; and, consequently, their use lies within the first block of the schedule. Ninety per cent of the consumers use less than 10,000 cubic feet per month. The present rate structure, therefore, is practically a straight commodity charge, and does not tend to encourage the use of large quantities of gas or charge to small users their equitable part of the costs. A comparison of the rates in Stockton with those found reasonable by the Commission for Fresno, San Jose, and Sacramento, very comparable cities, indicates that the present average rates in Stockton are approximately 9 cents per 1000 cubic feet less, for the same oil price conditions, than the rates in these other communities. In view of the present low return earned by the Gas Department of this Company, the comparatively low rates in effect, and the fact that the Company has obtained at this time a favorable contract for oil, it appears that the Company is entitled to share in the savings resulting from its foresight and to earn a somewhat higher general rate of return. The rates herein fixed are modified to more equitably divide the charges for gas service and to increase the net return of the Company on the 1923 basis to approximately 7½ per cent.

I recommend the following form of Order:

O R D E R

Western States Gas and Electric Company having applied in application No. 6886 for an increase in electric rates, a petition of intervention having been filed therein requesting a reduction in gas and electric rates, and the Commission having instituted a proceeding on its own motion, Case 1864, for the determination of reasonable gas rates in the City of Stockton, hearings having been held, the matters submitted, and now being ready for decision, the Railroad Commission hereby finds as a fact that the gas and electric rates of the Western States Gas and Electric Company, in its Stockton Division, are not just and reasonable rates in so far as they differ from the rates herein established.

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

IT IS HEREBY ORDERED, that -

(1) Western States Gas and Electric Company be and is hereby authorized to charge and collect in its Stockton division, effective for all regular meter readings taken on and after the fifteenth day of April, 1924, the schedules of rates for electricity set forth in Exhibit "A" and the schedule of rates for gas set forth in Exhibit "B", said exhibits being attached hereto and made a part hereof;

(2) Western States Gas and Electric Company present to this Commission on or before the first day of May, 1924, a comprehensive plan, satisfactory to the Commission, for building up and maintaining reserve for accrued depreciation to conform to the annuities and reserves set forth in the opinion herein;

(3) Western States Gas and Electric Company file with the Commission on or before March 20, 1924, the gas and electric schedules herein authorized.

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 27th day of March, 1924.

C.L. Seavey

H.W. Brundige

Irving Martin

J.L. Whittlesey

Commissioners.

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EXHIBIT "A"

EXHIBIT "A"

SCHEDULE L-1.

GENERAL LIGHTING SERVICE:

Applicable to general domestic and commercial lighting service, including household appliances and single phase service to motor loads not to exceed 3 H.P. capacity.

TERRITORY:

Applicable to the City of Stockton and surrounding suburbs.

RATE:

			Gross	Net
First	50	KWH per meter per Mo.	8¢	7¢ per KWH
Next	150	" " " " "	5¢	5¢ " "
Next	800	" " " " "	4¢	4¢ " "
Next	2000	" " " " "	3¢	3¢ " "
All over	3000	" " " " "	2½¢	2½¢ " "

MINIMUM CHARGE:

$1.00 per meter per month.

SPECIAL CONDITIONS:

(1) The net rate is effective providing the bill for service is paid on or before the tenth day after presentation; otherwise the gross rate is effective.

(2) Single phase motors of an aggregate capacity of 3 H.P. or less may receive service or may be combined with general lighting service under this schedule of rates at the option of the consumer, provided in case of combination service the total energy is supplied through one meter.

SCHEDULE L-2.

GENERAL LIGHTING SERVICE:

Applicable to general domestic and commercial lighting service including household appliances and single phase service to motor loads not to exceed 3 H.P. capacity.

TERRITORY:

Applicable to Stockton Division excepting the City of Stockton and surrounding suburbs and including Lodi, Galt, Florin, Elk Grove, Placerville, Camino, etc.

RATE:

First	10	KWH or less per meter per month	-	$1.00
Next	40	" per meter per month	-	8¢ per KWH
Next	150	" " " " "		6¢ " "
Next	800	" " " " "		5¢ " "
Next	2000	" " " " "		4¢ " "
All over	3000	" " " " "		3½¢ " "

SPECIAL CONDITIONS:

(a) Single phase motors of a capacity of 3 H.P. or less may receive service or may be combined with general lighting service under this schedule of rates at the option of the consumer; provided that, in case of combination service the total energy is supplied through one meter.

The minimum charge applicable to this combination service is only that minimum charge as set forth above.

SCHEDULE L-3

STREET and HIGHWAY LIGHTING:

Applicable to service for street, highway and other public outdoor lighting installations, using bracket, mast arm, or center suspension construction, and supplied from overhead lines, where the company owns and maintains the entire equipment.

TERRITORY:

Applicable to entire Stockton Division.

RATE:

	Lamp Rating	Monthly charge per lamp All night service.	Reduction for each hour, reduction in nightly service.
Multiple Lamps	25 Watts	$ .95	1¢
	40 "	1.25	2¢
	50 "	1.45	3¢
	60 "	1.70	3¢
	75* "	2.00*	4¢
	100* "	2.50*	5¢
	150* "	3.20*	7¢
	200* "	3.75*	12¢
	300* "	4.40*	13¢
	500* "	5.40*	20¢
Series Lamps	60 Candle Power	1.30	2¢
	80 "	1.65	3¢
	100* "	1.75*	4¢
	250* "	3.20*	7¢
	400* "	4.05*	12¢

* Includes a refractor. A diffusing globe, special highway reflector, or equivalent special reflector will be supplied on request. A deduction of 15 cents per month will be made for each lamp not equipped with refractor, diffusing globe or special reflector.

SPECIAL CONDITIONS:

For the purpose of calculating rates for less than all-night service, it will be assumed that the average hour of turning off all-night service is 5:30 A.M. and the average hours nightly service are:

SCHEDULE L-3 Cont'd.

All-night service	(4000 hours per year)	11 hours per night
Moonlight service	(2240 hours per year)	6 hours per night
Midnight service	(2000 hours per year)	5½ hours per night

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SCHEDULE L-4

STREET and HIGHWAY LIGHTING:

Applicable to street and highway and other public outdoor lighting installations using electroliers or ornamental lamp posts supplied from underground lines.

TERRITORY:

Applicable in the City of Stockton, to installations of 10 electroliers or less.

RATE: (A) The Company to install, maintain and own the entire equipment.

$4.33 per electrolier per month.

(B) Consumer to own equipment but Company to be responsible for all maintenance and replacements.

$3.30 per electrolier per month.

SPECIAL CONDITIONS:

(1) Electroliers used to render service under this schedule will be required to conform to standard equipment already installed.

(2) The above schedules apply to midnight service. In case service is desired beyond midnight an additional charge will be made on the basis of 40 cents per month per rated kilowatt of lamp load connected for each hour burned after midnight. Service beyond midnight will not be rendered except when possible to do so on complete circuits.

SCHEDULE C-1

GENERAL HEATING COOKING & COMBINATION SERVICE:

Applicable to general domestic and commercial heating, cooking and/or water heating service, and to combination lighting with heating, cooking and/or water heating service. Schedule P-1 is an optional rate for commercial heating and cooking installations.

TERRITORY:

Applicable to entire Stockton Division.

RATE:

(A) Heating, Cooking and/or water heating service

First	150 KWH per meter per month	3.5¢ per KWH
All over	150 " " " " "	2.0 " "

(B) Combination lighting, with heating, cooking and/or water heating service

First	30 KWH per meter per month	(x)
Next	150 " " " " "	3.5¢ per KWH
All over	180 " " " " "	2.0 " "

(x) Charge for first 30 KWH at effective lighting rate.

For residences flats or apartments of more than eight rooms 5 KWH for each additional room will be added to the first block of 30 KWH.

MINIMUM CHARGE:

First 7 KW or less of heating, cooking and/or water heating capacity, $3.00 per month
Over 7 KW of heating, cooking and/or water heating capacity, $.50 per KW per month.

When the consumer signs a contract for service for a period of one year the minimum charges will be made accumulative for the service year. The minimum charges are payable in monthly installments until such time as the accumulative energy charges equal the annual minimum charge.

SPECIAL CONDITIONS:

(a) Service will normally be 110/220 volt three wire alternating current.

(b) Minimum charges are based on the total active connected load of heating, cooking and water heating capacity which may be connected at any one time.

No additional minimum charge will be made for lighting service in case of combination service.

(c) Rate (B) applies only where the consumer installs and uses cooking, heating and/or water heating appliances other than lamp socket devices of at least 2 KW capacity for residences, flats or apartments of 8 rooms or less and 5 KW for residences, flats and apartments of 9 rooms or more.

(d) Bath rooms, halls and cellars are not classified as rooms.

(e) Connected load will be taken as the name plate rating of all heating and cooking apparatus permanently connected and which may be connected at any one time computed to the nearest one-tenth of a kilowatt and in no case less than 2 KW. All equipment assumed as operating at 100% power factor.

(f) Single phase power service (5 H.P. or less) may be combined under this schedule in which case each horsepower of connected load shall be considered equivalent to one kilowatt of connected load in determining the minimum charge.

SCHEDULE P-1

GENERAL INDUSTRIAL POWER SERVICE:

Applicable to general commercial and industrial power service, and to commercial heating and cooking service and rectifier service. Alternating current service will be supplied at any standard voltage from 110 to 2200 volts as may be requested by the consumer. D.C. service may be obtained when available at the voltage as available. Schedule P-2 is optional with this schedule.

TERRITORY:

Applicable to entire Stockton Division.

RATE: A.C. Service:

H.P. of Connected Load	Rate per Kwh. for Monthly Consumptions of: 1st 50 Kwh. per H.P.	Next 50 Kwh. Per H.P.	Next 150 Kwh. per H.P.	All Over 250 Kwh per H.P.
2 - 9 H.P.	4.0¢	2.1¢	1.3¢	.9¢
10 - 24 "	3.6	2.0	1.2	.9
25 - 49 "	3.1	1.9	1.1	.8
50 - 99 "	2.6	1.7	1.1	.7½
100 - 249 "	2.3	1.5	1.0	.7
250 - 499 "	2.1	1.3	.9	.65
500 - 999 "	2.0	1.2	.9	.6
1000 - 2499 "	1.9	1.1	.9	.6
2500 - over "	1.8	1.0	.9	.6

MINIMUM CHARGE:

First 50 H.P. of connected load, $1.00 per h.p. per month, but in no case less than $2.00 per month.

All over 50 H.P. of connected load, 65¢ per h.p. per month.

At the request of the consumer and upon the execution of a contract for a term of at least one year the minimum charge will be made accumulative over a 12 month period.

DIRECT CURRENT SERVICE:

D.C. service when furnished will be rendered under the above rates increased ½ cent per K.W.H. D.C. service may only be obtained where available.

SPECIAL CONDITIONS:

(a) Voltage:

This schedule of rates will apply to service rendered at any standard voltage at the option of the consumer. All necessary transformers to obtain such voltage will be supplied, owned and maintained by the company.

(b) Maximum Demand:

The above rates and minimum charges may at the option of the consumer be based on the h.p. of measured maximum demand instead of h.p. of connected load, in which case the h.p. of demand on which the rates and minimum charges will be based will not be less than 30% of the connected load, and the minimum charge will not be less than $50.00 per month.

The maximum demand in any month will be the average h.p. input (746 watts equivalent) indicated or recorded by instruments to be supplied, owned and maintained by the Company and at the Company's expense upon the consumer's premises adjacent to the watt hour meters, in the fifteen minute interval in which the consumption of electric energy is more than in any other fifteen minute interval in the month for installation of less than 750 h.p. and a 30 minute interval for larger size installation or at the option of the Company the maximum demand may be determined by test.

In the case of hoists, elevators, welding machines, furnaces and other installations where the energy demand is intermittent or subject to violent fluctuations, the Company may base the consumer's maximum demand upon a five minute interval instead of a fifteen or thirty minute interval.

Demands for installations in excess of 750 h.p. of connected load occuring between the hours of 11:00 P.M. and 6:00 A.M. of the following day will not be considered in computing charges under this schedule.

(c) Optional rate for larger installations:

Any consumer may obtain the rates and conditions of service for a larger installation by guaranteeing the rates and minimum charges applicable to the larger installation.

(d) Rectifier, Heating and Cooking Service:

Mercury arc rectifiers and commercial heating and cooking installations may obtain service under this schedule. For the purpose of determining rates and minimum charges, each kilowatt of connected load will be considered as equivalent to one horsepower.

SCHEDULE P-2

INTERMITTENT SERVICE:

Optional with Schedule P-1 and suitable for intermittent or seasonal use of energy.

TERRITORY:

Applicable to entire Stockton Division.

RATE:

Demand Charge

First 10 h.p.	of connected	load	$5.00	per	h.p.	per	year
Over 10 h.p.	"	"	" 3.50	"	"	"	"

Energy Charge

The energy charges are the rates without the minimum charges as set forth under Schedule P-1.

SPECIAL CONDITIONS:

(A) Total Charge

The total charge is the sum of the demand and energy charges stated above.

(B) Payment of Demand Charge

The demand charge is payable in five equal installments during the first five months after the date service is first rendered. The consumers may select, if satisfactory to the Company, other months in which to pay the demand charges.

(C) Adjustment of Bills

At the end of each year's service period a consumer operating under this schedule and whose total charges for service for the past year would have amounted to less under Schedule P-1 will have the charges for this service adjusted to the lower charges.

SCHEDULE P-3

AGRICULTURAL POWER SERVICE:

Applicable to general agricultural and reclamation service, including pumping, feed choppers, milking machines, heating for incubators, brooders, poultry house lighting and general farm use excluding cocking and general lighting service.

TERRITORY:

Applicable to entire Stockton Division.

RATE: A

Size of Installation	Annual demand charge per H.P.	Energy Charge in Addition to the Demand Charge — Rate per KWH for Consumptions per H.P. per year of: First 1000 KWH	Next 1000 KWH	Next 1000 KWH	All over 3000 KWH
2-4 H.P.	$ 6.60*	1.6¢	1.2¢	.9¢	.7¢
5-14 "	6.00	1.4	1.1	.8	.7
15-49 "	5.40	1.2	1.0	.8	.7
50-99 "	4.50	1.1	.9	.75	.7
100-249 "	3.90	1.1	.9	.75	.7
250-499 "	3.75	1.05	.85	.75	.7
500-999 "	3.60	1.00	.85	.75	.7
1000-2499 "	3.30	1.00	.85	.75	.7
2500-HP and over	3.00	1.00	.85	.75	.7

* In no case will the total annual demand be less than $13.20.

RATE: B OPTIONAL RATE:

Any consumer may select at his option the following rate instead of the demand and energy rate set forth above:

SCHEDULE P-3 Cont'd.

RATE: B OPTIONAL RATE: Cont'd.

H.P. of Connected Load	Annual Min.Chg. Per H.P.	Rate per KWH for Consumptions of: First 300 kwh per h.p. per yr.	Next 700 kwh. per h.p. per yr.	Next 1000 kwh per h.p. per yr.	Next 1000 kwh per h.p. per yr.	All Over 3000
2-4 H.P.	$9.00*	3.8¢	1.6¢	1.2¢	.9¢	.7¢
5-14 "	8.00	3.4	1.4	1.1	.8	.7
15-49 "	7.50	3.0	1.2	1.0	.8	.7
50-99 "	7.00	2.6	1.1	.9	.75	.7
100-249 "	6.75	2.4	1.1	.9	.75	.7
250-499 "	6.50	2.3	1.05	.85	.75	.7
500-999 "	6.25	2.2	1.00	.85	.75	.7
1000-2499"	6.00	2.1	1.00	.85	.75	.7
2500 HP & over	6.00	2.0	1.00	.85	.75	.7

* In no case will the total minimum charge be less than $27.00 per year.

SPECIAL CONDITIONS:

(a) Agricultural year.

Meters on all agricultural services will be read by the Company between April 1st and April 10th of each year and the above rates will apply to the yearly periods between such successive readings.

(b) Payment of Demand and Minimum Charges.

Demand and Minimum Charges will be payable in six equal monthly installments beginning with the bill based on the regular May meter reading.

(c) Selection of Schedule.

The Company will normally render agricultural service under Rate (a) unless the consumer advises the Company to apply the optional rate (b).

At the end of each agricultural year the Company will adjust the bills of consumers operating on either rate (a) or rate (b) to the more favorable rate.

(d) Guaranteeing Rates for Larger Size Installation.

Any consumer may obtain the rate for a larger installation by guaranteeing the rates and demand charge (or minimum charge) of that larger installation.

(e) Contracts

The Company may require a contract for service under this schedule for a period not to exceed three years when service is first rendered and thereafter from year to year.

(f) Consumers permanently increasing or decreasing their connected load will have their bills adjusted as provided in Special Condition (g) following, the original load being considered as discontinuing service and the increased or decreased load as commencing service.

(g) Service Commenced or Discontinued during the Agricultural year.

The following adjustments apply only in the case of service first begun or permanently discontinued and will not be made when installations shut down for a few months.

For a fractional agricultural year Rate (a) will be modified as follows:

The demand charge will apply to service taken between April 1st and September 30th at the rate of one-sixth of the annual charge per month.

The size of the blocks of energy charge will be multiplied by the factor in the following table corresponding to the month during which service is begun or discontinued.

Month in which Service Commences or is discontinued	FACTOR New Service	Discontinued Service
April	1.0	.1
May	.9	.2
June	.8	.3
July	.7	.4
August	.6	.5
September	.5	.6
October	.4	.7
November	.3	.8
December	.2	.9
January	.1	1.0
February	.1	1.0
March	.1	1.0

Rate (b) will apply without modification and the bill for service will be at the lower rate.

SCHEDULE P-4

WHOLESALE POWER SERVICE:

Applicable to general industrial power service supplied at a standard voltage of 2200 volts or over.

TERRITORY:

Applicable to entire Stockton Division.

RATE: (a)

Service at 2200 volts up to and including 25,000 volts

Demand Charge

First	200 KW or less of maximum demand		$300. per month
Next	300 " of maximum demand	....	$1.00 per KW per month
"	500 " " " "	....	.75 " " " "
All over	1000 " " " "	....	.60 " " " "

Energy Charge (to be added to the Demand Charge)

First	150 KWH per KW per month	......	.8¢ per KWH
Next	250 " " " " "	......	.6¢ " "
All over	400 " " " " "	......	.55 " "

RATE: (b)

Service at line voltages in excess of 25,000 volts.

The rate is the same as that set forth under Rate (a) above with the Demand Charge decreased by 15% and the Energy Charge by 3%.

SPECIAL CONDITIONS:

(a) Voltage

Service under Rate (a) will be supplied by the company at standard voltages of 2200 volts or more up to and including 25,000 volts as requested by consumer.

Service under Rate (b) will be supplied by the company from standard line voltages as available above 25,000 volts.

(b) Demand

The maximum demand in any month will be the average kilowatt delivery of the thirty minute interval in which the consumption of electric energy is greater than in any other thirty minute interval in the month. The maximum demand on which the demand charge and energy block will be based will not be less than 50 percent of the greatest maximum demand occurring during the eleven preceding months.

Demands occurring between the hours of 11:00 P.M. and 6:00 A.M. of the following day will not be considered in determining the above demand and energy charges.

(c) All voltages referred to in this schedule are nominal voltages.

SCHEDULE P-5

RAILWAY SERVICE:

Applicable to service to electric railways.

TERRITORY:

Applicable to entire Stockton Division.

RATE:

	Alternating Current	Direct Current	Should be
First 300 KWH per month per KW of maximum demand	.85¢ per KWH	.125¢ per KWH	1.25¢
Over 300 KWH per month per KW of maximum demand	.75¢ " "	.110¢ " "	1.10¢
Monthly minimum charge per KW of maximum demand	$1.75	$2.50	

SPECIAL CONDITIONS:

(A) Applicability of Schedule.

This schedule applies to direct current at trolley voltage delivered to railway feeders or to alternating current at distribution or transmission voltage delivered to railway substations and used principally for the propulsion of cars and trains. Energy delivered at such points may also be used for lighting and power purposes incidental to railway operation, but energy delivered at separate points for shops, stations, etc. will be billed at the regular rates applicable to such uses.

(B) "Maximum demand" as used in this schedule means the average load for the thirty minute interval in which the consumption of energy is greater than in any other thirty minute interval during the month, but demands created on legal holidays, between noon on Saturday and six o'clock the following Monday morning, between eleven o'clock any evening and six o'clock the following morning, or as the result of interruptions in the power company's service will not be considered.

(C) Points of Delivery.

When service is supplied at more than one point of delivery, the maximum simultaneous demand will be used. When both alternating and direct current are supplied, the charges for direct current service will be based on the maximum simultaneous direct current demand and the charges for alternating current will be based on the difference between the maximum simultaneous direct current demand and the maximum simultaneous combined direct and alternating current demand.

(D) Modification of Rate for Interruption of Service.

The foregoing rates and minimum charges apply to continuous service. The rates and minimum charges applicable in any month will be reduced by one-tenth of one per cent for each minute during which the delivery of energy is suspended by the power company, provided that -

1. No interruption will be considered if it is of less than 10 minutes duration, if it occurs between midnight and six A.M. or if it has been mutually agreed upon.
2. The resumption of service for less than five minutes will not be considered as terminating an interruption.
3. The maximum reduction in rate on account of interruptions in any one day will be 25% and on account of interruptions in any one month 50%.
4. When service delivered at more than one point is interrupted at any one or more points, the percentage of reduction in rate computed as though the entire service was interrupted will be multiplied by the ratio the energy delivered at the points affected bears to the total energy delivered for the month.

SCHEDULE P-6

RESALE POWER SERVICE:

Applicable to electric service to other electric utilities and to municipalities for distribution and resale. Service to be supplied at standard voltages of 2200 volts or over.

TERRITORY:

Entire Stockton Division.

RATE (A):

Service at 2200 volts up to and including lines of 25000 volts.

(1) Demand Charge

First	50	KW or less of maximum demand	....	$90. per month
Next	150	" of maximum demand	....	1.50 per KW
"	300	" " " "	....	1.00 " "
"	500	" " " "	....	.75 " "
All Over	1000	" " " "	....	.60 " "

plus

(2) Energy Charge (to be added to the Demand Charge)

First	150	KWH per KW per month	....	.80¢ per KWH
Next	250	" " " " "	....	.60 " "
All Over	400	" " " " "	....	.55 " "

RATE (B):

Service at line voltages in excess of 25000 volts.

(1) The rate is the same as that set forth under (a) above, with the demand charge decreased by 15% and the energy charge by 3%.

DISCOUNTS:

The above rates (A) and (B) are subject to a special discount allowed to assist in developing rural territory equal to 10% times the ratio of the purchasing companies KWH sales for service rendered in rural (unincorporated) territory to the total KWH sales. The discount to be applied for any calendar year will be based on the previous years sales of the resale utility.

SPECIAL CONDITIONS:

(a) Optional Rate

Service to loads of less than 50 K.W. demand, may at the option of the consumer be billed under Schedule P-1.

(b) Voltage

Service under Rate (A) will be supplied by the Company at standard voltages of 2200 volts or more up to and including 25 KV lines at the consumer's option.

Service under Rate (B) will be supplied by the Company at its standard line voltages as available above 25 KV.

(c) Demand

The maximum demand in any month will be the average kilowatt delivery of the thirty minute interval in which the consumption of electric energy is greater than in any other thirty minute interval in the month. The maximum demand on which the demand charge and energy block will be based will not be less than 50 percent of the greatest maximum demand occurring during the eleven preceding months.

Any demand occurring between the hours of 11:00 P.M. and 6:00 A.M. of the following day will not be considered in determining the above demand charge.

EXHIBIT "B"

EXHIBIT "B"

Schedule A.

GENERAL GAS SERVICE:

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

TERRITORY:

Applicable to the City of Stockton and surrounding suburbs.

RATE:

	Gross	Net	
First 600 Cu.Ft. or less per meter per Mo.	.90	.85	
Next 4400 " " per meter per month	1.15	1.10	per M
Next 5000 " " " " " "	1.00	.95	cu.ft.
Next 10000 " " " " " "	.85	.85	" "
All over 20000 " " " " " "	.70	.70	" "

The above rates, with the exception of the first block, are subject to increase or decrease on the basis of 1½ cents per thousand cubic feet for each ten cent increase or decrease in the price paid for oil above or below the price of $1.15 per barrel F.O.B. Stockton upon approval of the Railroad Commission. Change to be to the nearest one cent.

SPECIAL CONDITIONS:

The net rate is effective providing the bill for service is paid on or before the tenth day after presentation, otherwise the gross rate applies.