

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application
of Southern California Edison Com-
pany for authority to file and make
effective new schedules providing
for an emergency increase of elec-
tric rates.

Application No. 10143

ORIGINAL

Roy V. Reppy and B. F. Woodard, for the Applicant.
William Gutarie, for the City of San Bernardino.
J. J. Dewell and L. S. Wing, for California Farm
Bureau Federation.
G.A. French, for the City of Riverside.
Bruce Mason and Fred F. White, for the City of Long
Beach.
J. H. Howard, for City of Pasadena and City Attorneys
Association of Southern California.
Chester L. Coffin, for the City of Santa Monica.
N. B. Bachtell, for District of Lancaster.
Irvin H. Althouse, for Terra Bella Irrigation District.
F. C. Finkle, for Yucaipa Water Company No. 1; South
Mesa Water Company and Western Heights Water
Company.
L. D. Mayhew, for Globe Grain & Milling Company and
Globe Cotton Oil Mill
W. J. Carr and Jess E. Stephens, for City Attorneys
Association of Southern California, and the
Cities of Los Angeles, Chino, Anaheim, Fill-
more, Lindsay, Beverly Hills, Long Beach,
Hermosa, Monrovia, Pomona, Burbank, San Ber-
nardino, Montebello, Pasadena, South Pasadena,
Culver City, San Gabriel, Ventura, Huntington
Park, Sierra Madre, Porterville, Torrance, La
Verne, Riverside, Venice and San Fernando.
Jess E. Stephens, City Attorney, and Perry Thomas, Deputy,
for City of Los Angeles.
C. L. McFarland, for Riverside Portland Cement Company.
Frank Karr, for Pacific Electric Railway Company and
Visalia Electric Railway Company.
S. M. Haskins, for Los Angeles Railway Corporation.
W. P. Butcher, for City of Santa Barbara.
W. B. Mathews, for Department of Public Service, City of
Los Angeles.
W. R. McKay, for Kings County and Kings County Chamber of
Commerce.
A. R. Linn, for City of Hanford and Hanford Chamber of
Commerce.
Thomas A. Berkbeble, for City of Monterey Park.
G. W. Trauger, for Lindsay-Strathmore Irrigation District.
C. O. Griffin, for Lindsay Chamber of Commerce.
E. H. Rawl, for Golden State Milk Products Company.

S. B. Anderson, for Cochen Dairymen's Association.
A. R. Linn and C. O. Griffin, for San Joaquin Valley
Commercial Secretaries Association.
M. W. Phillips, for Ojai Power Company.
F. J. Hyde and J. T. Crowe, for City of Tulare and
Tulare Board of Trade.
Henry P. Goodwin and James E. Barker, for City of
Azusa.

BRUNDIGE, COMMISSIONER.

OPINION

In this application, Southern California Edison Company alleges that by reason of a shortage in the supply of hydro-electric power its operating expenses will be increased and its net revenue greatly reduced, and asks for permission to place in effect for a period of nine months temporary increases in rates or surcharges that will partially offset the reduction in net revenue.

A public hearing was held in Los Angeles on June 17, 1924, at which the Company presented testimony and exhibits in support of its application. The hearing was then adjourned to July 14, 16 and 17, when protestants were given an opportunity to submit evidence in rebuttal and to cross-examine the Company's witnesses. A further hearing was held on July 23 for the presentation of arguments and the case was submitted.

The shortage in water power during the summer of 1924 is so serious that it cannot be met by the maximum operation of Applicant's steam plants and of such plants as it has been possible for it to lease from private owners and by the purchase of all surplus power available. It has become necessary to refuse service to new consumers and to restrict the use of energy by present consumers, with a consequent reduction in gross revenue.

The Company estimates a reduction of \$5,632,000 in net revenue for the year 1924, as compared with the same year with an average supply of hydro-electric power. It is urged that, as a result of this reduction in revenue, it will be impossible for bonds to be

certified until late in 1925, and that, if construction work is to be continued and the demands of the public for an increased supply of power are to be met, rates must be increased to a point that will permit of the certification and sale of bonds in the spring of 1925. It is asked that certain specific increases in rates be authorized from August 1, 1924, to April 30, 1925, which during that interval will result in an increase in gross revenue of \$3,080,000.

The principal opposition to the Company's application came from the municipalities of Southern California, which were represented as a group by Mr. W. J. Carr. Mr. Carr presented figures to show that, for the whole of the seven-year period 1920 to 1926, inclusive, the Company could be expected to earn a total revenue slightly in excess of that necessary to yield the return on the investment which this Commission has heretofore declared to be reasonable. Mr. Carr argues that the Company's rates should be kept upon a level that will produce a reasonable return upon the investment over a period of years, and that a decrease in net revenue in one year, even though it is as serious as during the present year, does not justify a temporary increase in rates.

Representatives of the agricultural interests united in urging that rates should not be increased, and called particular attention to the economic condition of the farmer during the present year.

The company declares that unless it is given the relief requested, it cannot issue any bonds before the end of 1925, and that its failure to issue bonds may necessitate serious curtailment of its construction program or increase the cost of construction funds. This situation, it should be noted, is not due to the fact that there is no market for the company's bonds (refunding six percent. bonds selling at or near par and other issues on a better basis) but is brought about by the provision of the company's mortgage. Such mortgage permits the trustee to certify bonds only when the net earnings of the company for a period

of twelve consecutive months ending not more than sixty days prior to the request made upon the trustee to certify bonds, shall have been in each case equal to one and three quarter times the total annual bond interest charge. Mortgage provisions such as are involved in this instance, have never been and will not now be considered by the Commission as a proper ground for the increase in rates. The issuance of bonds is but one source of capital funds. Other sources are available to Southern California Edison Company as well as to other utilities.

While the Company's position that its rates must be such as to enable it to issue bonds cannot be accepted, I am unable to agree entirely with the position taken by Mr. Carr on behalf of the cities. A large community depends upon this Company for the supply of electricity essential to its prosperity, and it is highly important that the Company continue its development work and keep the supply of power at least abreast of the demand. While this does not necessitate the continuous marketing of bonds it does require the maintenance of a sound financial structure and sufficient income so that financing in some form may be carried out and construction work permitted to proceed without dangerous interruptions. It must also be noted that the evidence presented in support of Mr. Carr's theory not only includes so-called surplus earnings during the years 1925 and 1926 which are somewhat problematical, but that in his Exhibits showing surplus earnings for past years consideration has not been given to the transfer of approximately \$1,137,000 from earnings to depreciation reserve. This transfer was made at the instance of the Commission to take care of inadequate provisions for depreciation during years of reduced earnings prior to 1920, and effectively removes this sum from the funds which Mr. Carr in his Exhibits claims are surplus earnings. This amount practically offsets the surplus earnings calculated by Mr. Decker for the seven year period including 1925 and 1926. His exhibit No. 7 if balanced at the end of 1924 and considering these transfers would show a deficit of about \$1,697,000.

The evidence in this and in other proceedings coming before the Commission during the spring and summer of this year indicates that the drought conditions of 1924 are so serious that their repetition is to be expected only at rare intervals. The flow of the streams in the Sierra Nevadas from which this Company derives the bulk of its water power appears to be far below such flow during any of the dry years that have occurred since reliable records have been kept. These conditions have, of necessity, resulted in greatly increased operating expenses, and have required a curtailment in the use of power by applicant's consumers.

The general prosperity of the territory served by applicant has been more or less seriously affected by the same conditions of drought and the curtailment of electric service made necessary by the shortage on applicant's system has furthered the extent of this burden.

On the other hand it must be borne in mind that the growth of the territory is dependent upon the continuing ability of this agent of the public to meet the demands for power. This condition places applicant in a somewhat different position than other lines of industry. Applicant must not, even under the conditions such as this year presents, be forced into a financial position such as may cause serious curtailment in its essential development, which in turn would cause loss to the public because of inadequate power supply in the future.

It appears that there is no contention that the present rates are too low for average conditions but that the burden of increased operating expenses is too great to be borne entirely by the Company, in view of the continued and rapid development of the territory dependent upon it, with the resultant burden of financing and developing which the Company must meet. An indication of the demand for financing is obtained from the estimates of rate base or investment used by Mr. Carr which were, in round numbers,

1924	138 000 000
1925	177 000 000
1926	200 000 000

Detailed figures of operating expenses and revenue were introduced by the Company and on behalf of the Cities. As is not unnatural, the Company's estimate of operating revenues and expenses in this as in previous cases present a pessimistic rather than an optimistic view of the situation. It is not to be expected that the revenues will be less than now estimated by the Company nor that the expenses will be more. On the other hand, it was brought out during the hearing that certain factors which had not been fully considered in the Company's figures are quite likely to result in a better showing than is reflected. The figures, as presented by Mr. Decker, witness for the cities, will therefore be used for the basis of this decision. The following table shows these figures as well as the effect of drouth conditions on the Company's operations as indicated by its own estimates:

TABLE NO. 1

Estimate of Operating Revenue and Expenses
Southern California Edison Company
Year 1924

	Average	Actual Conditions	
	Water Conditions	Company	Cities'
	Company	Company	Cities'
	Estimate	Estimate	Estimate
	Co. Exh. 13	Co. Exh. 13	City Exh. 4.
Electric Operating Revenue	\$22 279 000	\$20 554 000	\$21 250 000
Operating Expense			
Production	2 389 000	6 888 000	6 888 000
Transmission	585 000	585 000	585 000
Distribution	1 920 000	1 920 000	1 730 000
Commercial	1 207 000	1 207 000	1 105 000
General	728 000	728 000	728 000
Rentals	30 000	30 000	30 000
Uncollectible Bills	24 000	24 000	24 000
One-third deficit			52 000
S.J. & E.Ry. Co.	--	--	
Taxes	2 206 000	1 614 000	1 614 000
T o t a l	9 089 000	12 996 000	12 756 000
Net for Depreciation & Return	13 190 000	7 558 000	8 494 000
Depreciation Annuity	1 869 000	1 869 000	1 869 000
Net for Return	11 321 000	5 689 000	6 625 000

Mr. Carr used in his presentation a figure for rate base for the year 1924 furnished him by the Company, and the Commission has been supplied with details supporting this figure. An examination of these details indicates that for an emergency proceeding of the present nature the result may be accepted. As a provisional rate base for the year 1924, for the purpose of this decision only, the sum of \$137,700,000 will be used. The expected net revenue for the year 1924, as developed in Table No. one, amounting to \$6,625,000, after depreciation, is a return on this rate base of 4.8 per cent.

In 1920, in a rate case before this Commission, Southern California Edison Company proposed the establishment of a contingency reserve fund. As modified by the Commission such fund was established for the purpose of absorbing fluctuations in operating expenses occasioned by variations in the supply of hydro-electric power and in the price of fuel. For the past four years this contingency reserve has been in existence and on January 1, 1924, it contained a balance of \$1,581,000. The operations of the present year will not only entirely wipe out this balance, but the fund will fail to meet the contingency by approximately \$3,000,000. While the reserve is clearly inadequate to meet the burden which the conditions of the present year impose upon it, it should be applied to meet, as far as it may, the unusual expenses.

From the cities' estimate prepared by Mr. Decker it appears that, without the use of the contingency reserve, the Company's net earnings will fall \$3,703,156 below a 7½ per cent return upon the rate base, and that, if the contingency reserve is applied, they still will be \$2,121,965 below a 7½ per cent return.

It is to be noted that, in the analysis of the evidence presented, Mr. Carr in his brief pointed out the possibility that even a better condition will exist than estimated by Mr. Decker, so that the deficit of approximately \$2,100,000 may be somewhat reduced.

Mr. Carr, in his brief, apparently takes the position that the Commission, in its Decision No. 12718 in which the present rates were fixed, determined the rate of return for 1924 to be 7½ percent. This conclusion is not entirely justified by the previous decision in which the Commission pointed out that:

"It would appear, in view of the general tendency toward an increase in the profits from the business caused by concentration of the load and an increase in the use of electricity, as well as reduction in operating costs, that rates should now be fixed which may result in an estimated return, based on capital and sales somewhat less than would be considered reasonable on the average. On the other hand, this company is faced with the necessity of rapid enlargement of its system and of making large expenditures to meet the unprecedented growth of southern California. In view of all the conditions existing, we are of the opinion that a return of approximately 7.5 per cent on the 1923 basis (federal income tax being considered as an operating expense), is a reasonable return, it being expected that as business increases with the rapid growth of the territory served, the net return will increase somewhat. Special care on the part of the management of the utility should also result in some increases in efficiency and reduction in cost of operation, a part of the results of which at least should be available to the utility as compensation for such improved efficiencies."

It was contemplated that, under normal conditions, as the business became more concentrated and the economies were made effective, a somewhat higher return might be expected.

It is apparent that under the conditions which have been described, the Company cannot hope to earn a return that might under normal conditions be considered reasonable. At the same time it cannot be expected to proceed with financing and construction work without some relief from the abnormal conditions under which its operations must be carried on. It would seem fair that the company and the rate-payers share the burden imposed by this unusual condition. If during a year, which the Company's representatives have described as coming but once in fifty years, this Company is enabled to earn a return upon its reasonable investment of 6-3/4 percent, its earning capacity under normal conditions should be well established,

and no difficulty should be experienced in financing the developments which are necessary if an adequate supply of power is to be realized in the years to come. To produce a return of 6-3/4 percent will require an increase in revenue of approximately \$1,100,000, and the order will so provide.

In considering the sources from which increased revenue should be derived the Commission is of the opinion that serious consideration should be given to economic conditions at this time affecting agriculture.

For several seasons farmers in California and elsewhere have encountered many difficulties. Price levels have been low. The farmer has sold his products at low prices compared with the prices he has paid for the articles he has been compelled to buy. Few farmers operated at a profit last year, and this year their difficulties seem to have increased. During the early part of the year the market for California products outside the state was seriously interfered with. The extremely dry weather now prevailing has further imposed unusually heavy and additional burdens.

As pointed out by Mr. Deuell in his argument, the farmers power bill, already increased by the necessity of unusual pumping to supplement deficient rainfall also has been further increased by receding underground water levels necessitating the use of more power to lift the same amount of water.

While it is clear that the ability of an individual consumer or a class of consumers to pay cannot be regarded as in any way controlling the fixation of fair rates, yet there seem to be present in this particular case certain facts and circumstances which are believed to justify the exclusion of the agricultural power schedules from the increase of rates which must be granted.

Electric schedules are more or less complex and are so because they are intended to spread the burden as equitably as possible, taking into consideration the widely divergent conditions under which power is used, and the varying costs of delivering such power at the places at which it is wanted. The relation which a schedule affecting one class of consumers should bear to all other schedules is a matter of sound and discerning judgment and is not susceptible of determination with mathematical exactness. Thus it cannot be assumed that the relation established last year between the agricultural power schedules of this utility and all other electrical schedules on this system then was and now remains mathematically exact and not subject to variations in any particular.

We are, therefore, of the opinion, in view of the reasons above set forth, that the exemption of agricultural schedules from a percentage increase in rates in the present circumstances will not result in unjust or undue discrimination against any other class or classes of consumers. Mr. Dauell, in his argument, pointed out many reasons why in equity he believed the farmer should bear no part of the increase. That the Company believed the farmers were entitled to some special consideration was evidenced by the fact that in the rates asked for by the Company it was suggested that the farmer be increased only about half as much as some other classes of consumers.

But one sixth of the Company's gross revenue is derived from the sale of power for irrigation pumping and the elimination of the agricultural schedules from those to which the emergency increase is to be applied will, therefore, not result in the addition of any material burden to other classes of consumers. In view of the conditions in the agricultural industry already discussed, it appears entirely reasonable that, during the present emergency, the agricultural consumers should be exempted from any increase in rates.

ORDER

Southern California Edison Company, having applied to the Railroad Commission for authority to file and make effective new schedules providing for an emergency increase of electric rates, public hearings having been held and the matter being submitted, the Railroad Commission finds as a fact that under the abnormal conditions existing during the year 1924, the present rates and charges of Southern California Edison Company for electric service are unjust and unreasonable. Basing its order upon the foregoing findings of fact and upon the findings of fact set forth in the opinion preceding this order,

IT IS HEREBY ORDERED that

(1) Effective on bills for flat rate service delivered during the months of August, 1924, to March 1925, inclusive, and on bills for metered service based on regular monthly meter readings taken on or after September 1st, 1924, and before or on April 30, 1925, unless otherwise ordered, Southern California Edison Company be and it is authorized to add a surcharge of 10 percent to its rates as now filed with this Commission, provided, however, that no such surcharge shall be added to bills for service rendered under schedules P-4 and P-11, as said schedules are now filed with this Commission.

(2) On or before August 15, 1924, Southern California Edison Company shall file with this Commission revised copies of the rate schedules affected by this order.

(3) Southern California Edison Company shall file with this Commission monthly statements of its operating revenues and expenses in form satisfactory to the Commission.

(4) Southern California Edison Company shall account to its contingency reserve for the proceeds of the increases in rates herein authorized.

(5) The Railroad Commission hereby reserves the right to make such other and further orders in this proceeding as shall appear to it to be just and reasonable under the conditions that develop in the future.

(6) The effective date of this order shall be August 15, 1924.

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 15th day of August, 1924.

H. B. Brundage
Irving Martin

J. F. Whittsey
Commissioners

Application No. 10143.

SEAVEY and SHORE, Commissioners, Dissenting:

We dissent from the Opinion and Order issued by the Railroad Commission in Decision No. 13860, signed by three members of the Commission, and dated August 1, 1924. We regret that the Commission as a whole did not have the opportunity of considering together the proposed decision before it was rendered because it involves important principles of rate regulation not heretofore passed upon by the Commission as at present constituted, and because the Opinion and Order as rendered fails to take into account certain material factors which might have influenced the decision.

The majority decision appears to affirm certain principles in which we cannot concur.

First, in its provision for a net return in 1924 of 6½ per cent on the rate base as estimated by the Company, its statement of theory appears to imply the principle that this utility should not be permitted to earn less than 6½ per cent on its rate base, even in one out of fifty years regardless of the increased earnings in the other 49 years. The majority Opinion in this connection says, "If during a year, which the Company's representatives have described as coming but once in fifty years, this Company is enabled to earn a return upon its reasonable investment of 6½ per cent its earning capacity under normal conditions should be well established, and no difficulty should be experienced in financing the developments which are necessary if an adequate supply of power is to be realized in the years to come. To produce a return of 6½ per cent will require an increase in revenue of approximately \$1,100,000. and the Order will so provide."

It is our opinion that the net return in an abnormal year such as this year of 1924 should be taken into consideration only in its relation to the return over a period of years included in which will be found past years in which there was an excess of earnings, and also an estimate of years to come, in which as estimated by the Company for this year of 1924 under average water ~~conditions~~ there will with reasonable probability be an excess of earnings above the standard set in Decision No. 12718 in October 1923, when a net return of 7½ per cent on the rate base was arrived at by the Commission as a reasonable return for this utility.

Opposed to the principle involved in the majority decision in this matter, is the well recognized principle frequently approved by this Commission not only in its own conferences on rate procedure, but expressed in a number of decisions rendered by this Commission, that rates should be fixed not with reference to the special conditions found in one particular year, but with reference to the average conditions over a period of years.

Second, the majority decision appears to support opposing principles with reference to the question of basing increased rates on special conditions involved in the Company's financing. On the one hand it correctly denies the principle of basing increased rates upon the Company's financial needs as indicated in the mortgage provisions attached to its bonds whereby the trustee is permitted to certify to bonds only when the net earnings are equal to one and three-quarters times the total annual bond interest charge; and then the decision proceeds to grant an increase of rates upon the need of maintaining "a sound financial structure," and upon an assumption of the Company using more expensive means of financing than that denied. The Company's bonds are issued approximately upon a six per

cent basis, whereas its debentures and preferred stock are issued upon a seven per cent basis. However, in our opinion there are other principles involved in a rate proceeding quite as important as assisting the Company's financial program; and moreover, so long as the Company finds itself able to pay 8 per cent dividends on its more than \$41,000,000 of common stock, we do not believe that it can justly claim an abnormal increase of rates to meet a temporary diminution of its revenues.

This Commission was occupied for a period of nearly nine months last year, from its first hearing in January, 1923, of Case No. 1759, to the date of its Decision No. 12718 in October, 1923, in the conduct of exhaustive hearings and in the analysis and compilation of data from the evidence in that proceeding for the establishment of standard rates to be applied by this Company. In that proceeding the Commission had before it data made available after extended investigations by the Company's engineers and officers, by the Commission's engineers and by engineers and representatives of the consumers. That record applied to conditions covering many past years and to estimated conditions for years to come. The Commission was repeatedly reminded in that proceeding of the inevitable dry years that would appear. On all of that record rates were fixed by the Commission upon an anticipated net return of $7\frac{1}{2}$ per cent upon the rate base. We are now reminded by the Company in this proceeding that those rates established in October, 1923, on a $7\frac{1}{2}$ per cent net return basis would have produced in 1924 under average water conditions a net return of 8.2 per cent on the rate base. This statement only goes to show that the rates were established on a generous basis, and confirms the probability of a high rate of return on existing rates as soon as average water conditions return next year or the

year after. It is entirely reasonable to assume that on the basis of existing rates any shortage of revenues experienced this year on account of water shortage, will be readily absorbed in the Company's excess profits in the year or years that will follow. If we are to be urged now within a few months of the Commission's mature Decision No. 12718 of October 1923 to add a surcharge of 10 per cent to existing rates to tide the Company over its temporary diminution of revenues, we might just as reasonably require the Company to stipulate that the existing rates will be proportionately reduced when it is found that the 1925 and 1926 revenues yield a net return in excess of 7½ per cent on the rate base.

Third, a further principle involved in this proceeding, which we believe should be given greater consideration than is effected by the majority decision is the injustice of requiring the consumers to share the so-called losses of the Company at a time when they themselves are suffering similar and serious losses from the very same causes, namely, from the shortage of power, and the curtailment of its use, owing to this Company's inability through water shortage to supply their needs. We are not at this time, as formerly, confronted by war conditions extending over a period of many years, with its exhausting effect upon the resources of corporate public agencies. We are facing a temporary situation estimated in the majority Opinion of the Commission on an eight months basis. This is not an appropriate time for the imposition by the Commission upon cities, industries and other public utilities dependent upon this applicant company for their electric power of an emergency increase of rates in favor of one utility which is indeed one of the best financed and ablest utilities in the State. It may be well to bear in mind that the so-called losses of this Company are merely a temporary reduction of its customary profits.

Fourth, the evidence in this proceeding was very limited and manifestly immature in its preparation. While the majority Opinion accepts and uses largely the figures submitted by Mr. Decker, representing the Cities protesting in this case, Mr. W. J. Carr, counsel for the Cities, points out the inadequacy and hastiness of the check made by Mr. Decker due to the conditions involved. On the other hand the engineers of the Commission, whose facilities and records are more direct, did not make any report in the record of the case, as we believe they should have done. Otherwise the proceeding is immature and the record incomplete. Under such conditions we believe that a departure from the standard rates set in Decision No. 12718 in October 1923, established after a complete investigation, should not be allowed.

Fifth. The majority decision does not adequately take into account the available resources of the Company. The decision uses Mr. Decker's estimate of net revenue for 1924 amounting to \$6,625,000 and bases its conclusions upon that figure in conjunction with the Company's estimated rate base of \$137,700,000. It goes at some length into a discussion of Mr. W. J. Carr's figures on excess earnings of the Company for the years 1920 to 1923 inclusive, from which it makes certain deductions on account of transfer from earnings to depreciation reserve previously effected; but the decision does not take into account the more important matter of the Company's accumulated surplus, revealed in its own annual report to the Commission, which is part of the record in this case.

It is quite true, as pointed out by Mr. Carr, that for some years the Company has been earning much in excess of what the Commission, in establishing rates from time to time, estimated to be a reasonable return. That only shows how conservative the Commission

should be in considering estimates of anticipated revenues and expenses, and it also suggests that the Commission might well consider some means of equitably adjusting the Company's rates so as to more equitably distribute its net return over a period of years and that consumers may not be called upon to pay excessive rates. But the excess earnings do not indicate all of the Company's gains. There is not only the gain above an estimated reasonable rate of return, but there is also a gain within the rate of return above the actual cost of money. It is in the combination of these factors and possibly other gains that we find the accumulation of a surplus, which together with the contingency reserve constitute a combined reserve upon which the Company can draw to meet the necessities arising from the temporarily diminished revenues.

The records of the Company with the Commission show that on January 1, 1924, the accumulated surplus amounted to \$3,393,008. We are advised by the Financial Department of the Commission that this accumulated surplus is over and above the contingency reserve reported as of January 1, 1924 as amounting to \$1,522,605. and is also over and above the amount of \$1,137,000 previously transferred to depreciation reserve referred to in the majority Opinion as not having been taken into account in Mr. Carr's discussion of excess earnings.

On this basis the Company had on hand on January 1, 1924, \$3,393,008. in accumulated surplus after paying 8 per cent dividends on its common stock, its regular dividends on preferred stock and interest on all outstanding bonds, and in addition to this surplus had on hand \$1,522,605. in its contingency reserve, created for the purpose of protecting the Company against a water shortage or increased cost of fuel oil. This makes a total of \$4,915,613. which the Company had on January 1, 1924 with which to fortify itself against

loss of expected revenue. The estimated actual revenue under existing conditions accepted in the majority Opinion and Order amounted to \$5,625,000. Adding these amounts together the Company would have available during 1924 a total of \$11,540,613. This is equivalent to 8.38 per cent on a rate base of \$137,700,000, and is actually more than the Company claims it would have earned in 1924 on existing rates under average water conditions, on which amount it predicates its so-called losses through water shortage.

It is true that this does not represent a rate of net return exclusively drawn from the earnings of 1924, but it does represent available resources, which have all accrued from net revenues past and present, and should be taken fully into account before any emergency increase of rates is considered.

Let us examine this situation further as to its real financial significance.

The outstanding securities of this Company and the interest or dividends payable on the same respectively are as follows:

Funded Debt.

A. \$ 3,914,400 of 7% debentures; Interest	\$ 274,008.
B. \$64,093,000 of 6% bonds; Interest	3,845,580.
C. \$10,225,000 of 5½% bonds; Interest	562,375.
D. \$36,538,700 of 5% bonds; Interest	<u>1,826,935.</u>
<u>Total Interest</u>	<u>\$6,508,898.</u>

Stock.

1. \$ 4,000,000 Original Preferred Stock, 8%	\$ 320,000.
2. \$11,528,100 Series A Preferred Stock, 7%	792,967.
3. \$ 9,891,000 Series B Preferred Stock, 6%	593,450.
4. \$41,241,372 Common Stock paying 8%	<u>3,299,310.</u>
<u>Total Dividends</u>	<u>\$5,005,737.</u>

Total Amount of Bond Interest and Stock Dividends - \$11,514,635.

There will be available to the Company in 1924 from accumulated surplus, contingency reserve and net return from existing rates the total sum of \$11,540,613. In other words, even under the unfavorable water conditions of this year the Company will have enough money to pay all operating expenses, depreciation annuity, interest on bonds, and full dividends on stock, including 8 per cent on its common stock, and still have a surplus of \$25,978. If it should develop that Mr. Docker's estimate of net revenue for 1924 is below the actual results, this surplus would be correspondingly greater. If, however, on the figures before us, the Company should temporarily reduce its dividend on common stock to 7 per cent it would have a surplus of \$438,391. If it should reduce its common stock dividend to 6 per cent it would have at the end of 1924 a surplus of \$850,804. We submit that this is what the Company should do and that no increase of rates should be granted by the Commission at this time.

This Company has for many years enjoyed not only profitable returns but earnings considerably in excess of the rate of return estimated by the Commission from time to time as reasonable. There is every reason to believe that on the basis of existing rates, and on a return of average water conditions next year or the year after, the Company can speedily recover its financial position and be stronger than ever. The Commission should base its rates on the average conditions of a period of years, and should take fully into account the return secured by the utility not in a single year but in a period of years. The existing rates were established only in October, 1923. It is, in our opinion, quite unreasonable for the Commission to be asked a few months later on account of a temporary water shortage and the consequent added cost of operation to impose new burdens on consumers who are themselves suffering from the same causes in the

shortage of power, especially in the face of the strong financial position of this Company and in view of the adequacy of its revenues, together with its accumulated surplus and its contingency reserve to take care of its current requirements.

Dated at San Francisco, California, this 5th day of August, 1924.

C. Deane

Egerton Shore

Commissioners.