

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of Southern California Edison
Company for authority to file and
make effective new schedules pro-
viding for an emergency increase
of electric rates.

Application No. 10143.

- Roy V. Reppy and B. F. Woodard, for the Applicant.
William Guthrie, for the City of San Bernardino.
J. J. Deuell 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, Dep-
uty for City of Los Angeles.
C. L. McFarland, for Riverside Portland Cement Company.
Frank Kerr, 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 Goshen 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.
 T. G. Anderson, Deputy City Attorney, for Department of Public Service, City of Los Angeles.
 A. R. Linn, for the San Joaquin Valley Commercial Secretaries Association and affiliated organizations with the exception of Visalia Chamber of Commerce.
 Edw. T. Bishop, County Counsel, and Ernest R. Pridham, Deputy, for the County of Los Angeles.
 Glenn D. Smith, for the Ontario Power Company.
 D. A. Eckert, Director of Lindsay-Strathmore Irrigation District, associated with Geo. W. Trauger.

SEAVEY AND WHITTLESEY, COMMISSIONERS:

OPINION ON REHEARING

On June 4, 1924, the Southern California Edison Company filed an application for authority temporarily to increase its rates partially to offset increased operating expenses resulting from a year of unusually low stream flow and correspondingly increased production of steam power. Hearings were held in Los Angeles on June 17th, and July 14th, 16th, 17th and 23rd, and on August 1st the Commission rendered its Decision No. 13860. From the figures in this decision, it appears that, as a result of the increased operating expenses and a reduction in gross revenue brought about by the lack of sufficient power to meet the requirements of the Company's consumers, its net revenue would be reduced by something less than \$5,000,000 below the revenue which would probably have been received under normal conditions.

The decision points out that, after allowing for depreciation annuity, this is equivalent to a return of approximately 4.8 per cent upon the rate base. Of the reduction in net revenue of nearly \$5,000,000, approximately \$1,500,000 is offset by a contingency reserve accumulated from rates for the purpose of meeting un-

usual fuel expense during dry years, and an increase in rates of approximately \$1,100,000 was authorized partially to offset the remainder of the deficiency.

The case was reopened by the Commission on August 6th for further hearing, and petitions for rehearing from a number of protestants were granted. Further hearings were held in Los Angeles on August 13th, 14th and 22nd, and the case was again submitted.

During these further hearings, additional evidence was introduced bearing upon the probable operating revenues and expenses for the year 1924. The figures so presented indicate that more power will be available for distribution to the public than was expected at the time of the earlier hearings, and that the revenue to that extent will be increased. Much of this additional energy comes from expensive sources and, as a result, operating expenses will also be increased. While the revised figures differ from those used in the previous decision in detail, the estimated result is not substantially changed.

As more fully described in Decision No. 13860, the Edison Company in 1920 suggested the formation of a contingency reserve that was designed to absorb fluctuations in operating expenses occasioned by variations in the supply of hydro-electric power and the price of fuel oil. While the Company's suggestions were not accepted without modification, such a reserve was established and has been in operation since 1921. It may be fairly said, therefore, that for several years the Company, the public, and the Railroad Commission have accepted the principle that rates should be fixed upon the basis of average water power conditions. Variations in operating expenses during the past years have been absorbed by the Company through the medium of the contingency reserve; and, had the conditions of the present year not been so ex-

treme, there is no doubt that the resulting expenses would also have been absorbed by the Company without asking relief, even though, in so doing, it somewhat more than exhausted the contingency reserve.

The question now to be decided is, therefore, whether the conditions of the present year constitute an emergency justifying special consideration or whether the present year should be considered as an incident of the Edison Company's operations. The Company claims that the drouth has been so severe and the consequent operating expenses so unusual that special consideration should be given them. The protestants urge that special consideration should not be given to the present year but that it should be considered as one of the years making up the average, particularly in view of the fact that all industry and business has been affected adversely. No claim has been made that the large and unusual expenditures being made are not in the public interest or that the Company is seeking any selfish advantage in making them. The policy of considering wet and dry years upon an average basis having been adopted and having given satisfactory results for a number of years, it is apparent that the present year should be taken into the average rather than given special treatment if, by so doing, no detriment to the public interest results.

It is realized that without an increase in rates, the Company will be unable to sell for approximately a year any bonds, but this is the result of mortgage provisions rather than market conditions. It can hardly be concluded that the denial of this application will seriously affect the Company's ability to proceed with necessary construction work or materially increase the average cost of money. The Edison Company enjoys an unusually strong financial position. The money which it borrows is protected by a

substantial stock equity, and at the present time its floating debt is by no means excessive when compared with capitalization and property values. It is of record that the conditions of the present year are without precedent in the records of hydro-electric companies in this State, and this has been spoken of as one year in forty. The effect of such conditions upon the Company's position is far different from the loss of revenue through competition, the decline of the community or any other more permanent cause. To a very considerable extent the stock of the Edison Company is held in territory served, where the public is naturally fully acquainted with the circumstances. In view of the facts and of the Company's record, it seems most unlikely that a temporary condition such as confronts the Company now will have any serious or lasting effects on the Company's credit.

The present year presents unusual problems to applicant's consumers due to the general economic depression and the curtailed use of electric power made necessary by the drouth and inability of the Company to meet the demands made upon it. The fixing of rates upon average rather than special conditions is highly desirable because it eliminates objectionable fluctuations in rates and distributes over several years the burden that would otherwise be concentrated in a single year.

The evidence in this proceeding shows that considering an average of the water power conditions of the past several years, the existing rates are just and reasonable. Fluctuations of fuel expense during the past few years have been absorbed through the contingency reserve and it appears reasonable that the unusual production expense of the present year be treated in the same way. This policy will be just to the Company and will have the great added advantage of avoiding an increased burden upon consumers at a time when they are suffering from a general

economic depression and an inadequate supply of electric energy.

In view of all the conditions, including the strong financial status of the Company, the net return to be earned even under the very abnormal conditions, the economic situation existing and the curtailment of power, we have come to the conclusion that the present year, although it will produce much less than the normal net revenue, should be treated as but one of the many years going to make up the average condition upon which rates should be based.

The previous Order will, therefore, be rescinded and the application of Southern California Edison Company for authority temporarily to increase its electric rates will be denied.

O R D E R

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, the Railroad Commission having on August 1, 1924, rendered its Decision No. 13860 and having by Order dated August 6, 1924, reopened the case for further hearing, and having by Order dated August 11, 1924, granted the petitions of certain parties for rehearing of said matter, further hearings having been held, the matter now being submitted and ready for decision, and the Railroad Commission being of the opinion that the authority applied for ought not to be granted,

IT IS HEREBY ORDERED that the Order of this Commission embodied in its Decision No. 13860 dated August 1, 1924, be and the same is abrogated and rescinded, and the application of Southern California Edison Company for authority to file and make effective new schedules providing for an emergency increase of electric rates is denied.

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 11th day of October, 1924.

C. L. Seaver

Eugene Shore

J. T. Whitney
Commissioners

COMMISSIONERS BRUNDIGE AND MARTIN, DISSENTING:

The re-hearing held in this case revealed no new testimony of importance. Actual operating figures for May, June and July were substituted for estimated figures. Certain small changes resulted. There was a slight increase both in revenue and expenses, leaving a slightly less percentage of return to the Company than had been estimated in the original decision.

The figures presented in these hearings check so closely that they may be accepted as the fairest and most accurate estimates that can be made at this time. Such differences of opinion as may exist, therefore, may be said to be the result of applying conflicting theories to a given or admitted set of facts rather than the reverse.

There is no dispute as to the fact that it will cost the Southern California Edison Company, in round figures, \$5,000,000.00 more to serve its consumers with light and power during 1924 than it would have cost had there prevailed the average water conditions which were the basis of the present rates, which were fixed in October, 1923. The disagreement among the members of the Railroad Commission is over the question of what shall be done about it.

It should be borne in mind that the lack of rainfall in 1924 was the most serious prevailing over a term of approximately forty years, so far as it affects the source of hydro-electric power in the territory covered by Southern California Edison plants. The territory served by the Edison Company has been growing at a tremendous rate and the demand for power has increased with population or even more rapidly. Edison Company sales in 1923 increased

30 per cent over those of 1922. Even during 1924, when all industry was compelled to reduce its demands, it is estimated that total Edison Company sales, measured in kilowatt hours, will exceed those of 1923 by approximately 17 per cent and those of 1922 by 53 per cent.

During 1924 there was a shortage in hydro-electric production on the Edison System of 820,000,000 k.w.h. below the amount that would have been produced under average water conditions. This is equivalent to a reduction in normal output of $53\frac{1}{2}$ per cent.

To make up this great shortage in hydro-produced power, the Southern California Edison Company not only ran to full capacity its efficient steam plants, but early in the year it placed in operation its Santa Barbara and Visalia steam plants, which, in 1923, were thrown out of the rate base because of obsolescence.

The Company also leased and rehabilitated every private steam plant available which could be connected to its system or to connecting systems, including plants of the Pacific Electric Railway that had not been operated for a number of years. Small plants of private industries were operated at its expense and all surplus power produced by other electric utilities was purchased to relieve the situation. So great was the emergency, and so imperative was the demand for power, the Company purchased power or produced power at a cost which, in a number of instances, was in excess of the revenue received therefrom.

In 1923, the Commission estimated that the Company should be entitled to earn something more than $7\frac{1}{2}$ per cent on its reasonable investment in property "used and useful" in the public service. By reason of excessive cost of production, due to the unusually dry year, the Company, in 1924, will earn approximately \$4,053,000.00 less than a $7\frac{1}{2}$ per cent return. There has been

provided, during the past four years, a contingency reserve to take care of differences in cost, of power due to water conditions and oil prices. At the beginning of 1924 there was in this fund \$1,581,000.00. By applying all this money to reduce the production costs of this year, the Company still falls approximately \$2,472,000.00 short of the estimated return of 7½ per cent, which was believed to be the very minimum the Company was entitled to earn under average water conditions, and out of which return it must pay all the interest on its funded and floating debt, interest upon reinvested depreciation reserve, amortize its debt discount and expense, and pay dividends upon its stock.

In the majority opinion on the original hearing, the Company was given an increase of 10 per cent on all schedules, except agricultural, for a period of eight months. It was expected that the increase would amount to about \$1,100,000.00 in revenue, and that this additional amount of money would provide for the Company from 1924 operations, after including the \$1,581,000.00 from the contingency reserve, approximately 6-3/4 per cent return on the investment in the property devoted to the public service.

That decision was based on a belief that it would be fair to the Company and to the rate-payers to require each to bear a part of the extraordinary burden, caused by the excessive and unusual drought. As nearly as could be, the original decision placed about one-half this burden on the Company and the other half on the rate-payers.

In the minority opinion in the original hearing, it was urged that the Company should bear all of the extraordinary expense incurred during this year "in view of the adequacy of its revenues, together with its accumulated surplus and its contingency reserve to take care of its current requirements." The Company's revenues

for this year are inadequate by \$4,053,000.00 to provide a return of even $7\frac{1}{2}$ per cent; the Company's accumulated surplus did not, as has been alleged, result from excessive earnings in past years; this surplus is not a cash fund, but is reinvested in plant; full allowance is made for the use of the contingency reserve.

This claim seems to be abandoned in the majority decision upon re-hearing. The suggestion therein made is that the expenses of this year be included in the average upon which rates shall be based in the future. This suggestion means that the losses of this year be absorbed over a period of years. The question which here is presented is whether the increased costs incurred by the Company during 1924 should, in part, be made up by consumers who have been beneficiaries of such increased costs (which was the effect of the majority decision in the original hearing), or whether these costs should be spread out over a long term of years and paid for by consumers who will receive little if any benefit at all from such increased expenditures. The year 1924 has been spoken of as one year in forty and if it is in the contemplation of the majority members of the Commission that one-fortieth of the cost not covered by contingency reserve should be added to the expenses of each year for the next forty years, we then would have succeeded only in passing on this debt to posterity. Even if these costs should be amortized over a period of only one-half that time, it seems that the principle still would be objectionable. In effect such a proposal is to leave in the hands of future Commissions the duty of reimbursing the Company for necessary and admitted expenditures, to which reimbursement it is, in equity, entitled now. It is obvious that the present Commission has no power to bind its successors in this or any other matter.

Economic conditions and price levels change from time to time. Utility rates, to be fair alike to consumers and the Company,

must change also. It is not possible that any Commission can fix rates so as to spread the losses of 1924 over a period of forty or even of twenty years. If this were possible, in our opinion, it would be undesirable. In effect, the result can only be to deny the Company any reimbursement for its extraordinary expenditures.

We feel that if some consideration is not to be given to the extraordinary cost incurred in purchasing and in producing power to keep the wheels of industry moving as rapidly as possible this year, and if all of these extraordinary expenditures must be borne in their entirety by the Company, there will be little, if any, incentive, under similar conditions in the future, for any utility to go to such lengths and incur such costs as did the Southern California Edison Company this year in its endeavor to serve its consumers.

For the reasons stated we dissent from the conclusions contained in the majority opinion upon re-hearing.

Dated at San Francisco, California, this 11th day
of October, 1924.

H. H. Bunnage

Dwight Martin

Commissioners.