

ORIGINAL

Decision No. 25314.

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

Paul J. Hopper, et al.,
Complainants,

vs.

Case No. 3078.

Lassen Electric Company,
Defendant.

Paul J. Hopper, et al.,
Complainants,

vs.

Case No. 3185.

Lassen Electric Company,
Defendant.

Edson Abel and L. S. Wing, for complainants
in Case No. 3185.

Orrick, Palmer & Dahlquist, by Hillyer Brown
and J. A. Pardee, for defendant in both
cases.

STEVENOT, COMMISSIONER:

O P I N I O N

In this proceeding Cases No. 3078 and No. 3185 were consolidated for the purpose of hearing, both being complaints filed by Paul J. Hopper and more than twenty-five other consumers. Complainants allege that the rules, regulations, practices and rates of the Lassen Electric Company for electric service are unjust, unreasonable and discriminatory and pray that the Commission investigate such rules, regulations, practices and rates and further that the Commission investigate and determine the fair value of the property of the defendant and thereupon establish just, reasonable

and non-discriminatory rules, regulations, practices and rates.

Hearings in the consolidated cases were held before Commissioner Stevenot in Susanville on June 9 and 10, 1932, when evidence was introduced and the matter submitted for decision on briefs.

In 1900 the Lassen Water, Light and Power Company was formed for the purpose of supplying water and electricity to the City of Susanville. In 1911 the Lassen Electric Company was incorporated, at which time the water and electric properties were separated. The Red River Lumber Company purchased the Lassen Electric Company in 1920 and continued the operations of the utility under the same name. Shortly after acquisition of the properties, the Red River Lumber Company abandoned the existing generating equipment of the Lassen Electric Company and supplied electrical energy from its own sources of supply at Westwood. A 33 kilovolt transmission line from Westwood to Susanville was constructed for this purpose. In 1930 the Republic Electric Company purchased the capital stock of the Lassen Electric Company and since that date the operations of the utility have been under the supervision of Republic Management Company, a subsidiary of Republic Electric Company, with offices in San Francisco.

The utility holds franchises permitting it to distribute and sell electric energy in Lassen and Plumas Counties. Within the area served are the towns of Susanville, Johnstonville, Standish, Litchfield, Wendel and adjacent territory in Lassen County, and Chester in Plumas County with a total of some 1,400 consumers. The Lassen Electric Company purchases all of the electric energy which it distributes and sells from Red River Lumber Company at Westwood. A 33 kilovolt wood transmission line extends from Westwood to

Susanville and on to Standish. Step-down substations are located at Susanville, Johnstonville, Standish and at the Lassen Lumber and Box Factory. Distribution is supplied at 2300 and 6900 volts.

Of underlying importance in this proceeding is an agreement dated June 18, 1930, between Red River Lumber Company and Sherritt and Company. As of this same date the agreement was assigned by Sherritt and Company to Lassen Electric Company and the Electric Company assumed all the obligations of Sherritt and Company and Sherritt was released of all liability thereunder by the Lumber Company.

The features of this contract, with which we are concerned, relate to the supplying of power by the Lumber Company to the Electric Company and Lassen Lumber and Box Company from which it appears:

"Whereas, the Buyer had purchased from the Seller all of the Capital Stock of the Lassen Electric Company * * *.

** * * in consideration of said purchase, it is agreed as follows:

"1. The Seller will, for a period of twenty (20) years from the date hereof, supply all power needed * * * by the Electric Company in connection with the operation of said distributing system * * *.

"2. The price of said electrical energy shall be 1 1/2¢ per kilowatt hour.

* * * * *

"6. The Seller shall have the right to furnish electrical energy to the Lassen Lumber and Box Company, for its own use in its plant at Susanville, California, during the next twenty (20) years; * * *.

"For the purpose of furnishing said electrical energy to said Lassen Lumber and Box Company, the Seller shall be entitled to use the transmission line of the Electric Company running from Westwood to the substation of the Electric Company at Susanville, and the necessary portion of the Electric Company's distributing line running from said substation to the plant of said Lassen Lumber and Box Company, * * *.

"The electrical energy sold by the Seller to said Lassen Lumber and Box Company shall be metered at the plant of said Lassen Lumber and Box Company by * * * meters furnished, installed and maintained by the Electric Company or said

Lassen Lumber and Box Company. * * * read on the last day of each and every month, and the Electric Company will deliver to the Seller a statement of such reading. Such reading shall be increased by fifteen (15) per cent thereof (said 15% increase being the amount mutually agreed upon as compensation for the use of the Electric Company's facilities and to cover line losses), and as so increased shall be deducted from the total energy furnished by the Seller to the Electric Company's transmission line at Westwood in order to determine the amount of electrical energy delivered over the said line to the Electric Company for its own purposes."

Prior to the hearing in this matter these agreements had not been submitted to, or filed with, this Commission. Obviously the jurisdiction of this Commission in fixing just and reasonable rates for service by a public utility cannot be restricted or circumvented by any agreements which a utility may make unless it can be affirmatively shown that such agreements are just and reasonable and in the public interest. Such showing was not made in this proceeding and the evidence with respect to the arrangements therein provided is persuasive that this agreement is not in the public interest and for purposes of this proceeding must be entirely ignored.

The effect of specific features of this agreement on rate base and operating expense will be discussed at appropriate points in this opinion.

The company presented no evidence as to rate base, revenues or operating expenses, its presentation of pertinent testimony being limited to the subject of rate of return to be allowed and certain stipulated testimony relating to going concern value and accounting methods.

J. E. Cooper, Valuation Engineer of the Commission's staff, presented an exhibit showing the historical cost of the property in the amount of \$327,797. as of December 31, 1931. He defined historical cost as "the estimated cost of reproducing the

property as of the dates it was originally constructed and under the conditions of original construction." The historical cost and estimated market value of land were found to be the same. In excess of 30 per cent of the costs used in this appraisal were taken from the records of the company, which were far from complete, while the remaining costs were developed from those known costs or obtained from other sources. The historical reproduction cost estimate included overheads at 15 per cent on all property accounts except miscellaneous distribution capital and general office equipment, to which 3 per cent was applied, and land, rights of way, organization and franchises, which carried no overheads.

The accounting records of the company were not sufficiently complete to permit of an accurate development of the actual overheads incurred or charged to capital and the percentages used represented an estimate. It was stipulated that L. R. Cady, local manager of the company, would testify that there had "never been charged on the books of the company any amount for interest during construction, store expense and injuries and damages during construction" prior to its acquisition by its present owners. It should be pointed out that the percentage included for injuries and damages was based upon present insurance costs and that such costs were never incurred prior to the acquisition of the property by its present owners.

The Commission engineers' historical reproduction cost also included all of the property of the company located at the Lassen Lumber and Box Factory substation at its estimated cost new of \$27,181. without overheads or \$31,258. including overheads. The propriety of including this sum in the rate base for Lassen Electric Company was seriously questioned because of the nature of the

equipment and character of the installation and because of its use by Red River Lumber Company to serve the load of Lassen Lumber and Box Company, as previously described in the agreement. In the course of the testimony it was brought out that the Box Company had recently installed its own generating equipment to care for its own load and had agreed to furnish Lassen Electric Company a break-down service at $1\frac{1}{2}$ cents per kilowatt hour. C. T. Mess, Commission engineer, estimated that for the future the Box Company would take but 55,500 kilowatt hours per year from Red River Lumber Company. The delivery of this amount of power, assuming no line losses, would result in a reduction of the bill of the Lumber Company to Lassen Electric, for the use of the transmission line and substation, of less than \$125. a year. Based alone of the estimated use in accordance with the terms of the contract between Red River Lumber Company and the Electric Company, the inclusion of any such sum as \$31,000. for this substation in the rate base, upon which the company is entitled to a return, places an unwarranted burden upon the electric consumers.

The agreement for stand-by service to be furnished by Lassen Lumber and Box to Lassen Electric is covered by a letter read into the record. As the Lassen Lumber and Box Company is not a consumer of Lassen Electric, the reflection of such sum in the rate base as will equal the cost of a substation required to permit Lassen Electric Company to take break-down service from the Box Company plant is all that is proper. From the record it appears that such substation would not require an investment in excess of \$16,000. In the rate base fixed herein such sum will be considered in lieu of the estimated cost of the existing substation.

L. S. Wing, engineer, witness for the complainants, used as the starting point in his estimate of rate base \$306,330., which was the amount for fixed capital appearing on the books of the company as of December 31, 1931.

The amount of fixed capital shown on the reports of the company to the Commission cannot be accepted for use in this case because it admittedly includes amounts for property no longer used or useful and fails to include costs actually incurred in the construction of property.

Testimony was offered by the complainants, through M. D. Collins, formerly farm advisor of Lassen County, to show the methods pursued in the construction of many of the rural lines of the company and the estimates of cost for these lines made for the purpose of distributing construction cost between the company and the prospective customers on the lines. These estimates in general corroborated the estimates of cost for similar or identical property presented by the Commission's Valuation Engineer.

The historical cost as of December 31, 1931, of the fixed capital of Lassen Electric Company found reasonable for use in the determination of rate base may be summarized as follows:

Historical reproduction cost (adjusted for overheads).....	\$322,910.
Less: Lassen Lumber and Box Substation...	<u>31,258.</u>
Sub-total.....	\$291,652.
Add: Allowance for break-down service substation.....	<u>16,000.</u>
Total Fixed Capital.....	<u>\$307,652.</u>

To the estimate for fixed capital should be added a reasonable allowance for cash working capital, materials and supplies, while advances made by consumers for construction purposes

in the amount of \$9,300. must be deducted. Inasmuch as the above figure is as of the beginning of this year, an allowance for 1932 net additions and betterments should be included.

It was stipulated that J. A. Ward, President of the company, would testify that, in his opinion, the Lassen Electric Company had a going concern value equal to approximately \$10.00 per consumer.

Considering the entire record in this proceeding relating to the subject of the rate base, I am of the opinion that the sum of \$306,000. represents a fair and reasonable rate base, including tangible and intangible property, for Lassen Electric Company for the year 1932 and is an appropriate sum to be used in testing the reasonableness of the rates to be established herein.

Estimates of revenue and expense were presented by C.T. Mess, engineer of the Commission's staff, and Mr. Wing, for the complainants. An estimate of the annual requirement for depreciation expense, on a 6 per cent sinking fund basis, was presented by B.E. Travis, engineer of the Commission's staff. The company presented no evidence in these matters but did cross-examine Mr. Mess extensively on his estimate of the cost of power.

The estimates submitted of revenue, at existing rates, and expense for 1932 average year compare as follows:

TABLE NO. 1
LASSEN ELECTRIC COMPANY
ESTIMATE OF OPERATING REVENUE AND EXPENSES
1932 AVERAGE YEAR

	Commission's Staff	Complainants' Witness
<u>Gross Revenue</u>	\$92,700.	\$93,650.
<u>Operating Expenses:</u>		
Production Expense	20,850.	20,000.
Transmission Expense	1,160.	1,275.
Distribution Expense	5,760.	4,300.
Commercial and New Business	7,830.	8,160.
General and Miscellaneous Expense	5,990.	6,275.
Depreciation Annuity	6,760.	6,700.
Uncollectible Bills	250.	300.
Taxes	9,850.	9,800.
Total Operating Expense	<u>\$58,450.</u>	<u>\$56,810.</u>
<u>Net Operating Revenue</u>	<u>\$34,250.</u>	<u>\$36,840.</u>

SCHEDULE L-1

GENERAL LIGHTING SERVICE:

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

TERRITORY:

Applicable to entire territory served by company.

RATE:

Service Charge: per meter per month.....60¢

Energy Charge - (to be added to Service Charge):

First	100	Kw-h	per	meter	per	month.....	7.0¢	per	Kw-h.
Next	250	"	"	"	"	"	5.0¢	"	"
Next	650	"	"	"	"	"	4.0¢	"	"
All over	1,000	"	"	"	"	"	3.0¢	"	"

Minimum Charge: The Service Charge constitutes the Minimum Charge.

SPECIAL CONDITIONS:

(a) 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 at the option of the consumer, provided, in case of combination service, the total energy is supplied through one meter. The minimum charge applicable to this combination service shall be the same as that set forth above.

SCHEDULE L-2MUNICIPAL STREET LIGHTING SERVICE:

Applicable to service to electrolier or other lighting systems when the consumer owns the equipment and the company supplies energy at one or more points.

TERRITORY:

Applicable to entire territory served by company.

RATE:

<u>Series Lamps.</u>	<u>Lamp Rating</u>	<u>Monthly Charge per Lamp All Night Service.</u>
	600 Lumens	\$0.75
	800 "	0.80
	1,000 "	0.90
	2,500 "	1.75
	4,000 "	2.55
	6,000 "	3.50

Nominal horizontal candle-power of series lamps is one-tenth (1/10) of their lumen rating.

SPECIAL CONDITIONS:

(a) This schedule is applicable to series street lighting systems where the company furnishes the constant current regulating transformers. Unless otherwise agreed, constant current energy will be delivered at a nominal amperage of 6.6, reasonable variations being permitted.

(b) Lights will be turned on and off once each night in accordance with a standard burning schedule prescribed by the consumer, but not exceeding 4,000 hours per year for all night service.

SCHEDULE C-1GENERAL HEATING AND COOKING SERVICE:

Applicable to commercial heating and/or cooking service.

TERRITORY:

Applicable to entire territory served by company.

RATE:

First	150 Kw-h.	per meter	per month	...	3.5¢	per Kw-h.
All over	150	"	"	"	1.7¢	"

Minimum Charge:

First 7 Kw. or less of heating and/or cooking capacity,
\$3.00 per month.

All over 7 Kw. of heating and/or cooking capacity,
50¢ per Kw. per month.

Space heating appliances shall not be considered as active connected load in computing bills on meter readings subsequent to May 1st and prior to November 1st, provided, however, that during such period the minimum charge hereunder shall in no case be less than \$3.00 per month.

SPECIAL CONDITIONS:

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

(b) Connected load will be taken as the name plate rating of heating and cooking appliances permanently installed and which may be connected at any one time, computed to the nearest one-tenth of a Kw.

(c) Single phase power service (3 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 D-1

GENERAL DOMESTIC COMBINATION SERVICE:

Available upon application for domestic lighting in combination with heating, cooking and/or domestic power service (including lamp socket appliances).

TERRITORY:

Applicable to entire territory served by company.

RATE:

Service Charge: per meter per month 60¢

Energy Charge - (to be added to Service Charge):

First	30 Kw-h.	per meter per month	*.....	7.0¢	per Kw-h.
Next	150 "	" " " "	3.5¢	" "
All over	180 "	" " " "	1.7¢	" "

* For residences, flats or individual apartments of more than 8 rooms, 5 Kw-h. for each additional room will be added to the first block of 30 Kw-h.

Minimum Charge:

First 7 Kw. or less of connected load, excluding lighting,
\$3.00 per month.

All over 7 Kw. of connected load, excluding lighting,
50¢ per Kw. per month.

Space heating appliances shall not be considered as active connected load in computing bills on meter readings subsequent to May 1st and prior to November 1st, provided, however, that during such period the minimum charge hereunder shall in no case be less than \$3.00 per month.

SPECIAL CONDITIONS:

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

(b) Connected load will be taken as the name plate rating of heating and cooking appliances permanently installed and which may be connected at any one time, computed to the nearest one-tenth of a Kw.

(c) This schedule applies only to single family dwellings and to separately metered flats and apartments where the consumer uses cooking, heating and/or domestic power appliances (including lamp socket devices) of at least two Kw. aggregate capacity.

(d) 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, computed to the nearest one-tenth of a Kw. in determining the minimum charge.

SCHEDULE P-1GENERAL POWER SERVICE:

Applicable to general commercial and industrial power service.

TERRITORY:

Applicable to entire territory served by company.

RATE:

H.P. of Connected Load	Rate per Kw-h. for Monthly Consumption of			
	First 50 Kw-h. per H. P.	Next 50 Kw-h. per H.P.	Next 150 Kw-h. per H.P.	All over 250 Kw-h. per H.P.
2-9 H.P.	3.9¢	3.0¢	1.8¢	1.5¢
10-24 H.P.	3.5¢	2.5¢	1.7¢	1.4¢
25-49 H.P.	3.0¢	2.3¢	1.6¢	1.3¢
50 H.P. and over	2.8¢	2.1¢	1.5¢	1.2¢

Minimum Charge:

First 25 H.P. of connected load, \$1.00 per H.P. per month, but in no case less than \$2.00 per month.

All over 25 H.P. of connected load, 50¢ per H.P. per month.

When the primary use of power is seasonal, or intermittent, the minimum charge may at the option of the consumer be made accumulative over a 12 month period.

SPECIAL CONDITIONS:

(a) Horsepower of connected load is determined by manufacturer's name plate rating.

(b) Alternating current service will be furnished at standard voltage from distribution circuits of the company. All necessary transformers will be supplied, owned and maintained by the company.

(c) Public Schools:

The minimum charge for power installations in public schools under this schedule will be 50¢ per H.P. of connected load per meter per month.

As the above table indicates, there is no substantial difference between the Commission engineer estimate and that of complainants' witness. The company apparently objected only to the estimate of production expense, which covers the cost of power purchased under the agreement between Red River Lumber Company and Sherritt and Company heretofore referred to. At the hearing counsel for the company stated that Red River Lumber Company had offered to reduce the price charged Lassen Electric from $1\frac{1}{2}$ cents per kilowatt hour to $1\frac{1}{4}$ cents per kilowatt hour.

Mr. Mess testified that Lassen Electric Company could obtain the electrical energy needed to supply its consumers from other sources at published rates which, based on the local conditions and points of delivery, would average less than one cent per kilowatt hour.

Unquestionably Lassen Electric Company can secure firm power at not to exceed one cent per kilowatt hour from a reliable source of supply. Further it appears from the face of the agreement, as quoted above, that the arrangement for the purchase of power from Red River Lumber Company was one of the considerations involved in the sale of the capital stock of Lassen Electric Company by the Lumber Company to its present owners. Consumers of Lassen Electric should not be burdened by this agreement and the inclusion in the allowance for operating expense of more than the current market rate for firm power in that locality is unwarranted. If Lassen Electric continues to take power under the contract, the difference between the sum herein allowed as reasonable and the price paid must come from the return allowed to the owner.

This property is under the same ownership and operated jointly with the California Utilities Company which supplies

Susanville with water. The operating expenses herein found reasonable reflect such joint operation and such economies as result therefrom. These economies warrant consideration in fixing the rate of return to be allowed.

Lassen Electric Company made a voluntary reduction in rates in August, 1931. Using the rates in effect after this reduction for estimating 1932 revenues, the following tabulation summarized the earning position of this company, giving effect to the changes in operating expense held to be reasonable in this opinion.

Gross Revenue at existing rates.....		\$92,700.
Less: Operating Expenses and		
Depreciation.....	\$48,750.	
Taxes.....	<u>9,850.</u>	<u>58,600.</u>
Net Available for Return.....		<u>\$34,100.</u>

This earning is equivalent to 11.1 per cent on the rate base found reasonable herein.

R. L. Cross testified for the utility on what, in his opinion, would constitute a reasonable rate of return for Lassen Electric Company. He defined reasonable rate of return as "one that will enable the utility, over a period of years, to obtain, at fair rates, the capital necessary for the conduct of its business" and that the cost of such money was the important factor. Mr. Cross concluded that if the company "had a rate of return of about 9 per cent it might have obtained capital costing in the neighborhood of 8 per cent" and that a reasonable rate of return would be 8 per cent, or in that neighborhood.

Mr. Cross assumed, in reaching his conclusion, a set up based on the company securing its capital 50 per cent through an issue of first mortgage bonds, 25 per cent by the sale of preferred stock and 25 per cent from common stock sales, with the cost on the

bonds ranging from $7\frac{1}{2}$ to $7\frac{1}{2}$ per cent, on preferred stock $7\frac{3}{4}$ to $8\frac{1}{2}$ per cent and common stock money from $8\frac{1}{2}$ to $9\frac{1}{2}$ per cent. As a matter of fact the company had but \$25,000. of capital stock outstanding, no funded debt, some \$23,000. of advances from affiliated companies and a depreciation reserve of \$74,000. Mr. Cross agreed on cross-examination that it would appear that the property had largely been built from earnings and depreciation reserve moneys. The use of fanciful financial assumptions, entirely divorced from actualities, cannot form the basis of a sound conclusion with respect to reasonable rate of return.

Jules Alexander, a Susanville banker, also called by the company, stated that his bank made its loans at rates of from 7 to 8 per cent and such loans as had been made to local utilities were at the rate of 7 per cent.

The return fixed herein must give consideration to the fact that no accrued depreciation has been deducted in finding the rate base, that annual depreciation has been included in operating expenses on a 6 per cent sinking fund basis and that the depreciation reserve of the company has been and will continue to be invested in the property.

Upon consideration of the entire record I am of the opinion that a reduction in rates is justified at the present time, which will reduce the revenue of the company by \$10,000. Such reduction will result in the company receiving a return of more than $7\frac{3}{4}$ per cent on the rate base herein found reasonable. Such rate of return appears warranted for this company in view of its small size, the character of the territory served, the lack of diversity of its load and the question of stability of future earnings. The

rates herein provided will adequately compensate the owners for the use of their property on an even more liberal basis than other investors in the community, accepting comparable risks, receive and offers a return which will attract any additional capital required by the utility.

The rate schedules authorized present a material change in form from existing schedules and represent a marked improvement over the schedules under which the company is now operating, both from the point of view of consumer and company. Consumers as a whole will benefit from decreased rates and the company will be operating under schedules which lend themselves to load-building. The present minimum bill form of rate for lighting and domestic combination service is discontinued and service charge substituted and all schedules modified to make them similar in form to the schedules in general use in this state. Under the new schedules domestic consumers with two kilowatts of heating or cooking appliances, including lamp-socket devices, may avail themselves of the combination lighting, heating and cooking schedule which is substantially lower than the lighting schedule.

I recommend the following form of Order.

O R D E R

A formal complaint having been filed by Paul J. Hoyer, et al., requesting an investigation by the Commission into the fair value of the property for rate-fixing purposes and also into the electric rates, rules, regulations and practices of Lassen Electric Company; public hearings having been held, the matter being submitted and now being ready for decision;

The Railroad Commission of the State of California Hereby Finds as a Fact that the electric rates of Lassen Electric Company

are unjust, unreasonable and discriminatory, in so far as they differ from the electric rates herein provided, which are declared to be just and reasonable rates for the future.

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

IT IS HEREBY ORDERED that

- (1) Based on all meter readings taken on and after October 1, 1932, Lassen Electric Company shall charge and collect for electric service supplied under filed schedules the rates set forth in Exhibit "A," attached hereto and made a part hereof.
- (2) For all other purposes the effective date of this Order is twenty (20) days from the date hereof.

The foregoing Opinion and Order is 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 29th day of August, 1932.

Cl. Denny
Leon Whitney
W. J. ...
W. B. ...
Fred G. Stewart
 Commissioners.

EXHIBIT "A"