

Decision No. 11189

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application
of SAN JOAQUIN LIGHT & POWER
CORPORATION for a revision and ad-
justment of rates.

Application 6651
(Supplemental)

Jared How, for Applicant, San Joaquin
Light & Power Corporation.

F. S. Brittain, for California Farm Bur-
eau Federation and E. Easton.

J. J. Deuel, For Kern County Farm Bureau.

ROWELL, Commissioner.

OPINION ON SUPPLEMENTAL PETITION

This supplemental application has been filed by San Joaquin Light and Power Corporation subsequent to the date at which it might legally apply for a rehearing, alleging therein that the Commission's Decision No. 10348, in Application No. 6651, is in error to the extent that it

(1) Ordered San Joaquin Light and Power Corporation to set aside to its depreciation reserve for electric properties on or before July 1st, 1922, an amount sufficient to bring its reserve to a total of \$ 2,365,600, as of December 31st, 1921.

(2) Ordered San Joaquin Light and Power Corporation to set aside annually to its depreciation reserve until further directed by the Railroad Commission 6% upon an accrued depreciation of \$ 2,864,304., plus all net additions to depreciation reserve made on and after January 1st, 1922.

(3) Found that the sum of \$ 50,000. should be disallowed as part of capital expenditures on account of damages incurred in connection with construction of certain lines.

(4) Did not allow Federal Income Tax as a part of operating expenses.

Petitioner requests that a hearing be held in order that evidence might be introduced and arguments made to the end that the Opinion of the Commission and Order found thereon be amended in accordance with justice.

A protest to the supplemental application of San Joaquin Light and Power Corporation was filed by the California Farm Bureau Federation and E. Easton. Protestants request that if the Commission should determine and make changes in the former order regarding depreciation, rates shall be reduced or as an alternative the excess amount of return shall be impounded and utilized by the Commission to reduce operating expenses.

A hearing in this proceeding was held at which time evidence was introduced relative to the matter of depreciation allowance and arguments heard relative to other matters raised.

The Commission in its Decision No. 10348 ordered San Joaquin Light and Power Corporation to set aside to depreciation reserve for electric properties as of December 31st, 1921 the total of \$ 2,365,600. Petitioner herein submits a recomputation of the depreciation reserve based upon a somewhat similar study to that introduced in Application No. 6651 estimating the reserve as of December 31st, 1921 at \$ 2,262,613. Two main reasons account for the difference in amount between that ordered by the

Commission and the present estimate by the Company. San Joaquin Light and Power Corporation now estimates that the reserve for depreciation of all electric properties as of January 1st, 1916 should have been \$ 656,059. in place of the amount set forth in Table No. 10 of Decision No. 10348, of \$ 639,838. It points out that it has charged depreciation on automobiles thru a clearing account to operating expense or capital, depending upon the use of the automobiles and that as depreciation allowance on automobiles is included in the annuity estimates by the Commission the retirement of automobiles should be deducted. In the allowance for depreciation made by the Commission in 1916 and the estimate made in proceedings thereafter there has been included depreciation annuity upon automobiles. In the estimate now submitted San Joaquin Light and Power Corporation deducts from depreciation reserve retirements of automobiles made during the period from 1916 to 1921.

It appears that there has been a duplication to the extent that in addition to an allowance being made for depreciation annuity by the Commission, the Company has distributed part of the cost of replacing automobiles directly to operating expense or capital accounts. It does not appear fair to consumers that the Company should at this time have the right to transfer to surplus, depreciation upon automobiles which it has included under operating expenses or capital. The following Table No. 1 sets forth a computation of the depreciation reserve from 1916 to 1921 inclusive, based upon the retention of accrued depreciation on automobiles in the reserve. Estimates of depreciation annuity for 1922 do not include depreciation on automobiles.

TABLE NO. I.

DEPRECIATION RESERVE - ELECTRIC PROPERTIES

San Joaquin Light & Power Corporation

	1916	1917	1918	1919	1920	1921
<u>Balance Jan. 1st.</u>	\$656,059*	\$810,223	\$1,012,285	\$1,311,597	\$1,573,664	\$1,884,710
<u>Additions to Reserve</u>						
Annuity	146,641	166,453	192,300	216,000	284,000	422,522
Interest Accrued	39,364	48,613	60,737	78,696	94,420	113,084
Miscellaneous	4,885	2,253	78,020	232	4,185	2,892
Total Add.	\$190,890	\$217,319	\$ 331,057	\$ 294,928	\$ 382,605	\$ 538,498
Grand Total	\$846,949	\$1,027,542	\$1,343,342	\$ 1,606,525	\$1,956,269	\$2,423,208
<u>Deductions from Reserve</u>						
Replacement						
Fixed Capital Acct.	\$ 24,503	\$ 13,719	\$ 33,483	\$ 32,424	\$ 70,648	38,899
General " "	2,223	1,538	1,738**	437	881	3,344
Total	\$ 26,726	\$ 15,257	\$ 35,221	\$ 32,861	\$ 71,529	\$ 42,243
<u>Balance Dec. 31st.</u>	\$810,223	\$ 1,012,285	\$1,311,597	\$1,573, 664	\$1,884,740	\$2,380,995

Note (*) Reserve as of Jan. 1, 1916 based on Company's Exhibit #1 - Supp. App. 6651

(**) Credit to deductions.

From further study of the evidence it appears that the amount of \$ 2,380,995. is a reasonable estimate of the accrued depreciation upon a 6% sinking fund basis for the electric properties of the San Joaquin Light and Power Corporation as of December 31, 1921 and Order in Decision No. 10348 shall be revised by reducing the amount on which interest shall be set aside from \$ 2,864,305. to \$ 2,380,995. as of December 31, 1921.

Applicant urges that Commission should not exclude from capital a cost of \$ 50,000. representing award for property damage caused in connection with construction of a transmission line. This Commission estimated the rate base as the reasonable historical cost of the property, not the total cash capital expended in property, and it does not appear that the cost of paying damages for the burning of a wheat field due to conditions which were deemed by the courts as negligence can be classified as a reasonable cost of the construction of the power system. The return allowed by the Commission contemplates certain hazards of the business and it would appear that the damage such as the one in question represents one of those hazards which must be borne by the stockholders of the utility.

Relative to Federal Income Tax I see no reason, considering the case as a whole and the rate of return allowed, for modifying the decision as heretofore made.

Modifications in the depreciation reserve herein provided in no way affect the estimate of total cost of service or the basis of rates set forth in Decision No. 10348 and it does not appear necessary therefore to make any modification relative to rates as suggested by the Farm Bureau Federation.

I recommend the following form of Order:

O R D E R

San Joaquin Light and Power Corporation having applied to this Commission in its Supplemental Application for certain modifications of Decision No. 10348, a hearing having been held and it appearing to this Commission just and reasonable that the provisions of said Decision relative to depreciation reserve and the setting aside of interest upon depreciation reserve should be modified as herein provided

IT IS HEREBY ORDERED that the provisions of the Commission's Decision No. 10348, in Application No. 6651 and Case No. 1544, decided April 25th, 1922 reading:

"That San Joaquin Light and Power Corporation,

(1) "Set aside to its depreciation reserve for electric properties on or before July 1, 1922, an amount sufficient to bring this reserve to a total of \$2,365,600. as of December 31, 1921.

(2) "Set aside to its depreciation reserve commencing January 1, 1922, and until otherwise directed by the Railroad Commission, the sum of \$467,893 per annum, plus an amount per annum equal to that computed on the annuity rates set forth in Table No. 12 in the opinion preceding this order on all net additions to depreciable capital made after January 1, 1922.

(3) "Set aside annually to its depreciation reserve until further directed by the Railroad Commission, 6 per cent upon an accrued depreciation of \$ 2,864,304 plus all net additions to depreciation reserve made on and after January 1, 1922."

be and they are hereby modified and amended so as to read:

"That San Joaquin Light and Power Corporation,

(1) "Set aside to its depreciation reserve for electric properties on or before January 1st, 1923 an amount sufficient to bring this reserve to a total of \$ 2,380,995. as of December 31st, 1921. 5

(2) "Set aside to its depreciation reserve, commencing with the Calendar year 1922, the sum of \$ 467,893. per annum, plus an amount per annum equal to that computed on annuity rates as set forth in Table No. 12 in the Opinion of Decision 10348 on all new additions to depreciable capital made on and after January 1st, 1922.

(3) "Set aside annually commencing with the calendar year 1922 to its depreciation reserve in addition to the annuity above, an amount equal to 6% upon an accrued depreciation of \$ 2,380,995., plus all net additions to depreciation reserve made on and after January 1st, 1922 in accordance with this Order.

The effective date of this Order is December 1, 1922.

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 31st day of October, 1922.

H. B. Bounding
Ernest Martin
Charles A. Lawrence
W. J. Anderson

Commissioners.