Decision No. ✓

ORIGINAL

Decision No. 1578

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA.

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KERN COUNTY MERCHANTS ASSOCIATION, Complainant, vs. CALIFORNIA NATURAL GAS COMPANY, (a corporation), et al. Defendants.	Case No. 357.
In the matter of the Commission's Investigation into the Rates of the Bakersfield Gas and Electric Company.	Case No. 556.

E. J. Emmons and W. E. Simpson for Kern County Merchants Association.
Pillsbury, Madison & Sutro for California Natural Gas Company.
Short & Sutherland for Bakersfield Gas & Electric Co. and San Joaquin Light and Power Corporation.
Rollin Laird and W. B. Beaizley for City of Bakersfield.

ESHLEMAN, Commissioner.

O P I N I O N.

Petitioner, Bakersfield Gas and Electric Company, sets up as a fact that the evidence in this case shows actual losses in operating expenses over and above gross earnings during the years 1911 and 1912 amounting to $38,711.66 and $7,833.70 respectively. In the hearing in this case petitioner did not introduce its books in evidence and the only evidence bearing on the subject of the alleged deficit is the statement appearing on pages 3 and 4 of the report prepared by the J. G. White Engineering Corporation and introduced in evidence as Bakersfield Gas and Electric Company's Exhibit No. 1. The deficit appearing in the J. G. White report is obtained by comparing the gross earnings of the Bakersfield Gas and Electric Company during 1911 and 1912, which appears as $73,588.11 and $125,619.52 respectively for the two years, with the operating expenses for the same years to which expense has been added interest

243

at 8% on an estimated value and also estimated depreciation and amortization annuities amounting to $24,685.00 for 1911 and $25,376.00 for 1912. As a matter of fact the financial statement filed by petitioner for the year ending December 31, 1913, was only $15,344.36 under the heading of "General Amortization of Capital" and it is not apparent why the Commission should be expected to take cognizance of and accept as an established fact the very much larger depreciation and amortization items estimated by J. G. White and Company for the years 1911 and 1912, neither does it appear why in setting up a hypothetical deficit the operations of the company were not carried back several years previous to the year 1911. The following statement appears on Page 8 of the J. G. White & Company's report:

> "Upon the introduction of natural gas (Dec. 29, 1910) a sliding scale of rates was adopted with $1.00 the maximum rate applying to all consumption over 10,000 cu. ft. per month. An immediate decrease in gas sales was noted, due to the higher calorific value of the new fuel, but THIS EFFECT WAS ONLY TEMPORARY. A STEADY AND CONTINUOUS INCREASE FOLLOWED AND THE GROSS EARNINGS OF 1911 WERE ONLY SLIGHTLY LOWER THAN THOSE OF THE PREVIOUS YEAR."

From the above statement it is apparent that the gross earnings during 1911 instead of showing the normal increase were lower than those of the previous year and it would seem as though the hypothetical deficit for the years 1911 and 1912 would have been very much reduced or entirely compensated for if the operations of the company had been taken back to the period preceding the introduction of natural gas. It cannot be said that the introduction of natural gas served to lessen the cost of production during 1911 and 1912, if we are to take the average cost of that gas as shown on Page 3 of the J. G. White report. The average cost of gas as shown is 38.9¢ and 31.5¢ respectively for the years 1911 and 1912, which would probably exceed the cost of production in the company's artificial gas plant.

If we substitute for the estimated depreciation and amortization used by the J. G. White & Company in arriving at an alleged deficit for the two years, amounting to $46,545.36, the actual depreciation shown in the company's statement for the year 1913 and if

we include the year 1913, we find that the net earnings for the three years is $344,383.64 and the total expense for the same period is $362,104.53, leaving an apparent deficit of $17,140.88 or only about 36.8% of that shown in the J. G. White and Company's report for the years 1911 and 1912. It is inconceivable that the depreciation during 1912 and 1911 should be 160% of that shown by the books of the company for the year 1913 and hence I am of the opinion that the Commission is justified in entirely disregarding the depreciation and amortization expense shown in the White report.

If we go a step further and substitute the depreciation annuity found to be reasonable in the Commission's decision in Cases 357 and 556, we find that the total expense including interest and depreciation for the years 1911, 1912 and 1913 shows $336,603.96 as compared with gross earning of $344,383.64, leaving an apparent net profit for the three years'operation of $7,779.68. If we add to the net profit above noted the credit which the gas department should receive from the electric department for gas furnished to the steam plant of the San Joaquin Light and Power Corporation for the year 1913, amounting to $2,075.87, we find that the actual net profit for the three years is $9,855.55 instead of a deficit of $46,545.36 for the years 1911 and 1912.

In considering the matter of development expense set up in the petition for rehearing, it is necessary to refer briefly to the question of depreciation and it is found that the amounts allowed by J. G. White and Company for the years 1911 and 1912 equal 8.6% and 8.76% respectively for the two years. These rates of depreciation on a straight line basis would correspond to a life of 11.6 years in 1911 and 11.4 years in 1912 for all the property of the company including real estate and working capital, and on a sinking fund basis, with interest at 6%, would correspond to a life of less than 9 years. It is not necessary to go into extensive detail on this subject in order to point out the fact that such an allowance for depreciation is

of course excessive, and I desire to call attention to the depreciation annuity allowed by the Commission in this case, which corresponds to a life of approximately 22 years for the entire property, which is at least liberal.

The petition for rehearing sets up as a fact that the rates provided by the Commission are not adequate to enable the company to earn a reasonable rate upon the proper values of the plant and system after meeting all operating costs and providing an adequate depreciation reserve. This allegation opens up the question of the present value allowed by the Commission in this case amounting to $297,856.70 and in comparing the value on which the Commission allowed a return with other values concerning which testimony was introduced it is of interest to note that the present value, including the entire $14,163.90 Additions to Capital to March 1, 1914 and "Working Capital" as allowed by Mr. Cory and Mr. Kelley was $263,521.90 and $265,323.90 respectively. These values including, as I have said, gross additions and betterments are $34,334.80 and $32,532.80 respectively less than the value used by the Commission. The value allowed by J. G. White and Company, including the gross additions and betterments above referred to and $20,000.00 "Working Capital", is $309,845.90. Without "Working Capital", which was not allowed by the Commission, the J. G. White present value is $8,010.80 lower than the Commission's figure. The rates fixed by the Commission will, without considering the increased sales due to a lower price for the gas sold, show in excess of 8% on the very liberal value fixed by the Commission and in excess of 7.7% on the value claimed by the J. G. White and Company report.

It has been my desire in this case to recommend to the Commission a determination which would be just to these companies and to the consumers as well. There can be no question that losses which are incurred in making any changes in a utility's facilities which will in the end be of benefit to the consumers should be compensated for. I had this in mind at the hearing of this case, and in working

over the testimony on valuation, operating expense and revenue with our Engineering Department it was my design to bring about an adjustment which would recognize any losses which this company had sustained. I believe that the order heretofore made is entirely fair in this regard, and I am of this opinion after a very careful review of the evidence for the second time.

So far as the San Joaquin Light and Power Corporation is concerned I find no reason for a change in the order heretofore recommended, and I recommend that the applications for rehearing be denied and submit the following order:

O R D E R .

BAKERSFIELD GAS AND ELECTRIC COMPANY and SAN JOAQUIN LIGHT AND POWER CORPORATION having applied to this Commission for a rehearing in the above entitled case, and having fully considered such applications and being fully apprised in the premises, and believing that no just grounds exist for a rehearing on this case,

IT IS HEREBY ORDERED that said applications for rehearing be and the same are hereby dismissed.

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 June, 1914.

Henry Ethelman

H. D. Loveland

Alex Gordon

Max Thelen

Commissioners.