

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

ORIGINAL

SALINAS CITY, a Municipal Corporation,

Complainant,

vs.

COAST VALLEYS GAS AND ELECTRIC COMPANY,
a Corporation,

Defendant.

Case No. 495.

Decision No. 1848

TEEBLEN, Commissioner.

OPINION ON APPLICATION OF DEFENDANT
FOR REHEARING

Coast Valleys Gas and Electric Company, defendant in the above-entitled case, has filed herein its petition for a rehearing. In support of its petition, the company claims that the decision herein is in error in the following matters:

1. That the Commission did not make sufficient allowance for going value and the cost of rights, capital and organization.
2. That the rates fixed by the Commission will not yield sufficient revenue, and that under said rates the earnings of all electric properties of petitioner, as calculated for the year ending July 31, 1914, will be approximately \$15,000.00 less than the cost of service for that year.
3. That the rate fixed for street lighting by means of arc and incandescent lamps is lower than it should be.

It is also claimed that the Commission's allowance for depreciation is considerably in excess of the amount which petitioner is setting up for that purpose and will result in a reduction of petitioner's net earnings by approximately \$6,000.00 per year.

I shall consider the points raised by petitioner in the order named:

First.- Going concern value and all other intangible items mentioned by petitioner were very carefully considered in the decision herein. I am convinced that nothing can be gained by going into the matter again at this time. The basis of return used by the Commission was exceedingly liberal upon the evidence introduced, as is shown by the fact that petitioner was allowed to earn upon some \$25,000.00 in excess the full reproduction value new of the physical elements of the property, notwithstanding the fact that the depreciated reproduction value or so-called "present value" of the physical property would probably not exceed 85% of the value new.

Second.- Petitioner supports its contention that the rates fixed by the Commission are too low by certain arbitrary computations wherein the basis of return is that used by the Commission for the year following the establishment of the rates fixed. In this manner it is at once obvious that not less than \$27,000.00 ~~shown~~ was included by petitioner which should have been excluded in computations based on the year ending July 31, 1914. It is also apparent that interest on an additional \$28,000.00 should have been figured on the average investment for a period of seven months. In arriving at the alleged deficit, petitioner has entirely disregarded the credit of \$10,155.35 due the electric department for inter-company use of electric energy during the period assumed and has taken the Commission's increased allowance for the cost of operation instead of the actual expenses as shown by petitioner's records. If the fixed expenses and operating expenses are recalculated on the basis of the actual amounts expended for the year ending July 31, 1914, using the actual average depreciation set up by petitioner for the two years preceding that time, it will be found that the net earnings, after making due allowance for interest at 8% will exceed \$2,000.00. However, the value of calculations on this basis is relatively small in this case, wherein the Commission has fixed

rates to be charged by petitioner for residence, commercial and street lighting in Salinas City alone and not in any other portion of the territory served by defendant. While it is true that, in arriving at the rates to be charged in Salinas, the Commission considered the entire investment of petitioner in properties devoted to electric service, it is also true that the Commission's order is effective only as to rates in that community. It may be possible that, in investigations involving other territory, it will be found that the rates fixed in this case are either too high or too low, and it is also possible that the Commission may find it necessary to revise petitioner's power rates and the rate charged to the Monterey & Pacific Grove Railway Company, a subsidiary corporation. After a further careful review of the case, I am convinced that the rates established for service within the city of Salinas are fair and reasonable and that there is no just ground for a rehearing as to such rates.

Third.— Petitioner's contention as to the rates for street lighting impresses me more strongly than does any other point urged in the application. While neither the evidence introduced in this case nor the information contained in the petition justify re-opening the case in order to determine the merits of petitioner's claims as to the street lighting rate fixed by the Commission in Salinas, petitioner may within ten days from the date hereof submit additional information bearing on the cost of this service, and if upon further investigation it appears that a modification should be made in the rate established by the Commission for this service, either as to the form or as to the revenue required, the Commission will gladly issue a supplemental order directing that such modification be made.

In regard to the Commission's allowance for depreciation, I desire to say that in making this allowance it was not the intention of the Commission to direct petitioner to increase the amount which is found to be adequate for replacements which become necessary to properly and efficiently operate its

properties. It is the duty of a public utility to keep its operating property in the highest state of efficiency consistent with economical operation and with due regard to the character of the service supplied by it. This is accomplished by proper expenditures for maintenance or current repairs and by such replacements as may become necessary from time to time. To provide for the latter it is essential that a sufficient depreciation reserve shall be maintained at all times. However, the Commission is not inclined to create any undue burdens upon any public utility by requiring that a depreciation reserve, larger than that which experience has proven adequate, be set up. It may be that in this case the amount allowed by the Commission is more than is necessary. The Commission was anxious to allow an amount sufficiently high for this item. If defendant is convinced that the amounts at present being set up by it for depreciation are sufficient, defendant may continue to set aside these amounts, though less than those allowed in the Commission's computations, until the further order of the Commission.

After careful consideration I can find no reason, at this time, for a change in the order heretofore made in this case. I recommend that the application be denied with the understanding that in the event that further investigation warrants a change in the rates fixed for street lighting, a supplemental order may be made directing such modification. If after trial for a reasonable time, say a year, defendant finds that the rates prescribed are not just and reasonable, defendant may make application to the Commission for a modification thereof.

O R D E R .

Defendant in the above entitled case having filed its petition for rehearing and careful consideration having been given thereto and the Commission finding that there exists no just ground for a rehearing in this case,

IT IS HEREBY ORDERED That said petition be and the same is hereby 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 6th day of October, 1914.

Max Gordon
Max Theiler
Edwin C. Edgerton
Commissioners.