

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

Decision No. 1969

In the Matter of the Application)
of HALF MOON BAY LIGHT AND POWER)
COMPANY for Permission to Increase)
its Rates for Service Supplied to)
E. B. & A. L. Stone Company.)

Application No. 429.

John O. McElroy and Allan P. Matthew, for Applicant
Heller, Powers and Ehrman, for E. B. & A. L. Stone
Company.

THELEN and LOVELAND, Commissioners:

O P I N I O N

This is an application by Half Moon Bay Light and Power Company, hereinafter called the Power Company, to increase the rates at which electric energy is supplied to E. B. & A. L. Stone Company, hereinafter called the Stone Company. The Stone Company operates a quarry at Rockaway and a sand plant at Pilarcitos, both in San Mateo County, California. Electric energy is at present served by the Power Company to the Stone Company under a contract entered into on or about May 17, 1912. In this contract the Power Company agreed to supply the Stone Company with electric energy for a period of 6 years. The rates named in the contract are 1-1/4¢ per K.W.H. for the first 10,000 K.W.H. and 1-1/8¢ for all current consumed in excess of 10,000 K.W.H. during any one month, subject to a minimum payment of \$12.00 per year for each horse power of motor capacity installed. These are the rates which applicant has on file for industrial plants with an installation of 200 or more H.P.

Applicant asks that in lieu of this schedule the following rates be put into effect and be made applicable to the Stone Company:

- (1) Rates applicable to industrial plants with an installation of 50 H.P. to 200 H.P.

Demand charge \$1.00 per H.P. per month, plus
energy charge 1.75¢ per K.W.H.

- (2) Rates applicable to industrial plants with an installation over 200 H.P.

Demand charge, \$1.00 per H.P. per month, plus
energy charge 1.125¢ per K.W.H.

In asking the Commission to authorize applicant to charge the Stone Company rates in excess of those specified in the contract applicant alleges that the contract rates are noncompensatory; that they do not pay the actual out-of-pocket cost incurred in supplying electric energy to the Stone Company; that the contract was made with a misunderstanding of its effect and that the Power Company would never have entered into the contract had it realized that the rates therein specified were noncompensatory. The Stone Company appeared in opposition to the application, claiming that it has, at great expense, in reliance upon this contract, altered its plant from a gas engine installation to an electric service; that a raise in the contract rate will require an abandonment of this electric service; that contracts have been made for the sale of rock and sand at prices which were based on the existing contract rate for power; that the contract for power was made at arm's length, and that it will be a great hardship on the Stone Company if the Power Company is allowed to increase its rates as requested.

This Commission has jurisdiction in proper cases to alter or modify the rates at which a public service company has contracted to supply service. If the contract rates are unreasonably high the Commission has the power to direct that service be supplied at

a less rate. Likewise, if the contract rates are unreasonably low the Commission has the power to authorize an increase in those rates. The Commission will, however, be slow to alter a contract rate when the contract has been entered into at arms length and in absolutely good faith. In such cases it must be conclusively established that the contract rate is either non-compensatory or excessive. In the present proceeding the equities of the parties are before the Commission and are unquestionably in favor of the Stone Company. So far as proper this fact will be given consideration in determining the rates to be charged that Company. No individual rate should be allowed to stand, however, if it is so low as to unjustly burden the remaining consumers.

Half Moon Bay Light and Power Company operates an electric transmission and distribution system along the coast of San Mateo County. The Company was incorporated on May 18, 1911, and began to supply electric energy about July 1, 1912. This Company purchases its electric energy from the Great Western Power Company. The Company has a transmission line of approximately 21 miles in length traversing a sparsely settled country. Distribution lines tap this main transmission line to supply consumers along the length thereof. At Rockaway and at Pilarcitos the Power Company has installed certain equipment which is used solely in distributing electric energy from the main transmission line to the plants of the Stone Company at these points. In this proceeding it is necessary to consider, first, the transmission investment and the operating expenses incident thereto; second, the distribution investment used solely to supply the Stone Company and the operating expenses incident thereto, and third, the cost of electric energy delivered to the Stone Company.

At the hearing applicant introduced an appraisal of its properties which gives the reproduction cost new as of July 31, 1913, at \$62,077.50. There was later filed a statement of additions and betterments made from August 1, 1913, to and including July 31, 1914, which aggregates \$7,755.37, making a total valuation on July 31, 1914, as estimated by applicant, of \$69,832.87.

The Commission's engineering department has made a careful

analysis of this appraisal. Applicant has included in its appraisal \$844.05 representing the cost of a transmission system from Colma to Daly City, which system, according to the record in the case, has never been in operation. Applicant has figured overhead charges on a basis of 25% of the physical properties. We believe that not more than 15% should be allowed for this item. Except for a few minor changes in unit costs, the detailed estimates presented by applicant have been accepted with the modifications above mentioned. The appraisal as modified may be summarized as follows:

TABLE I

SUMMARY OF APPRAISAL

Transmission:

Poles and Fixtures	\$9,445.00	
Overhead System	7,727.00	
Rights of Way	661.00	\$17,833.00

Distribution

39,344.59

General Capital:

Furniture & Fixtures	\$ 334.34	
Tools, Materials & Supplies	500.00	
Auto Equipment	1,431.61	
Franchises	583.00	
Working Capital	3,348.78	
Development Expenditure	3,000.00	9,197.73

Grand Total - - - - - \$66,375.32

The following allowances for operating expenses are those submitted by applicant for the year 1913, with the exception herein-after noted.

TABLE II

OPERATING EXPENSES

(1) Distribution expenses and repairs to capital -----	\$ 1,907.51
(2) Commercial department, labor, supplies and expenses -----	852.22
(3) Salaries and expenses of general officers -----	3,051.35
(4) Miscellaneous general expense -----	1,000.00
Total -----	\$6,811.08

Applicant allowed for item number (4) "Miscellaneous general expense" \$2,555.34. This sum consisted chiefly of legal expenses,

which we believe will not amount to this figure in the future. We have, accordingly, allowed \$1,000.00 for this item and believe this to be entirely adequate. The sum of these operating expenses should be appropriated to the respective elements of service as follows:

TABLE III

APPORTIONMENT OF OPERATING EXPENSE

Transmission service - - - - -	\$1077.76
Distribution service - - - - -	2377.85
Consumers- - - - -	<u>3355.47</u>
Total - - - - -	\$6811.08

We desire first to consider the proper rate to be charged for supplying electric energy to the Stone Company to operate the Rockaway quarry. In accordance with the procedure above outlined we determine the transmission cost for the entire system to be \$3,704.36, which sum includes a return of 8% upon the transmission investment, an allowance for depreciation and the proportion of the operating expenses properly chargeable to the transmission service.

If this total transmission cost is pro rated upon a demand basis the Rockaway quarry is chargeable with \$776.64 thereof.

The physical investment represented in the distribution service at Rockaway is \$2,201.05, to which we have added \$354.07, representing the general capital apportioned to the Rockaway plant on an investment basis. A return of 8% upon this investment, together with a proper allowance for depreciation and operating expenses amount to \$381.05.

The consumer cost obtained, as outlined above, amounts to \$15.37 per consumer, which charge should be included in the total cost of service to the Rockaway plant. The sum of the above elements of cost must be further increased to cover a proper allowance for taxes upon a basis of 4.6% of the gross revenue. The total cost of service to the Rockaway plant exclusive of the cost

of the energy amounts to \$1229.62 per annum, or \$4.384 per H.P. of connected load.

The electric energy sold to the Stone Company is purchased at the rate of nine-tenths of a cent per K.W.H. Making proper allowance for line loss, transformer loss and taxes, we find that the cost of electric energy for the Rockaway plant is 1.1106¢ per K.W.H.

In order that the Power Company may receive from the Rockaway plant the revenue to which we find it is entitled, we recommend that the Power Company be authorized to put into effect for the Rockaway plant and for all industrial plants having an installation of 200 or more H.P. the following rate:

Demand charge, \$4.50 per rated H.P. of connected load per year, plus

Energy charge, 1.1¢ per K. W. H.

The proper rate to be charged for electric energy furnished at the Pilarcitos sand plant may be determined in the same manner as that followed with reference to the Rockaway plant. The rate to the Pilarcitos plant, however, will be higher than the Rockaway rate due to a higher demand factor, higher distribution investment per unit of connected load and poorer load factor. The \$3704.36 total transmission cost pro rated to the Pilarcitos plant upon a demand basis amounts to \$118.04. The distribution investment chargeable to the Pilarcitos plant is \$1765.60. Interest at 8% and proper depreciation upon this investment amounts to \$187.84 to which should be added \$91.92, being distribution operating expenses pro rated to the Pilarcitos plant upon an investment basis. The distribution cost chargeable to this plant aggregates \$279.76. Adding the consumer charge of \$15.37 and proper allowance for taxes we obtain a total of \$433.09, equivalent to \$8.6618 per H.P. of connected load.

The cost of electric energy furnished this plant, if figured in the same manner as that followed in the Rockaway calculation amounts to 1.2845¢ per K.W.H.

In order to return to the Power Company the revenue to which it is entitled from the Pilarcitos plant we recommend that the Power Company be authorized to put into effect the following rates for the Pilarcitos plant and for all industrial plants with an installation of 50 to 200 H.P.:

Demand charge, \$8.50 per rated H.P.

per connected load per

year plus

Energy charge, 1.3¢ per K. W. H.

We submit herewith the following form of order:

ORDER

This proceeding having come on regularly for hearing and the Commission being duly advised in the premises,--

THE COMMISSION HEREBY FINDS AS A FACT that the rates at which Half Moon Bay Light and Power Company is serving electric energy to E. B. & A. L. Stone Company to operate a quarry at Rockaway and a sand plant at Pilarcitos, are unreasonably low and noncompensatory, and that the rates which the Half Moon Bay Light and Power Company has on file with this Commission for service of electric energy to industrial plants with an installation of 200 or more H.P. are unreasonably low and noncompensatory.

THE COMMISSION FURTHER FINDS AS A FACT that the following are just and reasonable rates to be charged by applicant for the supply of electric energy in the cases mentioned:

- (1) For service of electric energy to E.B. & A.L. Stone Company at Rockaway, San Mateo County, California, and to all industrial plants with an installation of 200 or more H.P.:

Demand charge, \$4.50 per rated H.P. of connected load per year, plus

Energy charge, 1.1¢ per K. W. H.

- (2) For service of electric energy to E.B. & A.L. Stone Company to operate a sand plant at Pilarcitos, San Mateo County, California, and to all industrial plants with an installation of from 50 to 200 H.P.:

Demand charge, \$8.50 per rated H.P. of connected load per year, plus

Energy charge, 1.3¢ per K. W. H.

IT IS HEREBY ORDERED that HALF MOON BAY LIGHT AND POWER COMPANY be, and it is hereby authorized to put into effect from the date of this order the rates last above-mentioned.

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 27th day of November, 1914.

H. S. Howard
W. J. Gordon
Max Thelen
Commissioners.