

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

In the Matter of the Application
of CITY OF LOS ANGELES, a municipi-
pal corporation, BOARD OF PUBLIC
SERVICE COMMISSIONERS OF THE CITY
OF LOS ANGELES, SOUTHERN CALIFORNIA
EDISON COMPANY and PACIFIC LIGHT
AND POWER CORPORATION for an order
approving contract between said
parties for the distribution of
electric energy.

Application No. 2884.

W. B. Mathews for City of Los Angeles and Board of Public
Service Commissioners of the City of Los Angeles.
E. H. Trowbridge for Southern California Edison Company
and Pacific Light and Power Corporation.
Paul Overton and Herbert J. Goudge for Los Angeles Gas and
Electric Corporation.
Herbert J. Goudge, in propria persona.

TESLEN, EDGERTON and DEVLIN, Commissioners.

O P I N I O N.

In this proceeding, the City of Los Angeles, herein-
after at times referred to as the City, the Board of Public
Service Commissioners of the City of Los Angeles, hereinafter
at times referred to as the Board of Public Service Commissioners,
the Southern California Edison Company, hereinafter at times
referred to as the Edison Company, and the Pacific Light and
Power Corporation, hereinafter at times referred to as the Pacific
Corporation, ask that the Railroad Commission approve an agree-
ment dated April 30, 1917, between the parties hereto. A copy of
said agreement is attached to the petition herein as Exhibit No. 1.
This agreement, hereinafter referred to as the Temporary Operating
Agreement, provides in part for the future distribution and sale
of electric energy for all purposes over the electric distributing
systems of the City, of the Edison Company and ^{or} the Pacific Corpo-
ration in the City of Los Angeles and in certain unincorporated
territory adjacent to the City.

A public hearing herein was held in Los Angeles on May 4, 1917. At this hearing, evidence in support of the petition was presented by petitioners and in opposition thereto by Los Angeles Gas and Electric Corporation and Herbert J. Goudge, hereinafter together referred to as the protestants. Subsequent to the hearing, the petitioners filed additional data requested by the Railroad Commission and the protestants filed a memorandum of reasons for the denial of the petition. The proceeding is now ready for decision.

It was stipulated at the hearing that such documents as might be filed by the parties prior to the decision herein should be given appropriate exhibit numbers and considered as evidence herein. The following documents were filed by petitioners subsequent to the hearing, having been given the exhibit numbers indicated and will be considered as being in evidence in these proceedings:

- Exhibit No. 10 - Resolution of City Council of Los Angeles, dated April 30, 1917, approving form of Temporary Operating Agreement and authorizing its execution. Similar resolution with reference to Purchase Agreement.
- Exhibit No. 11 - Resolution of Board of Public Service Commissioners of the City of Los Angeles, dated May 1, 1917, approving form of Temporary Operating Agreement and authorizing its execution. Similar resolution with reference to Purchase Agreement.
- Exhibit No. 12 - Letter dated May 8, 1917, from Arthur R. Kelley, valuation engineer, to Mr. R. H. Ballard, assistant ^{General} Manager Southern California Edison Company, giving inventory and costs of additions to capital of Southern California Edison Company in territory herein affected, from June 30, 1915, to December 31, 1916.
- Exhibit No. 13 - Statement of capital investment of Pacific Light and Power Corporation in territory herein affected, showing J. G. White & Company appraisal with additions to December 31, 1916.
- Exhibit No. 14 - Deductions from severance damages of Southern California Edison Company.
- Exhibit No. 15 - Severance Damages - Pacific Light and Power Corporation.

Exhibit No.16 - Los Angeles sub-station costs - Southern California Edison Company and Pacific Light and Power Corporation.

Exhibit No.17 - Consolidated Los Angeles City load at sub-stations, exclusive of railways, year ending March 31, 1917.

Exhibit No.18 - Kilowatt hours; monthly maximum peak demands and monthly load factors corresponding to maximum yearly peak of 25,000 horse-power at annual load factor of 36 per cent.

Exhibit No.19 - Letter dated May 14, 1917, from Mr.H.E. Trowbridge to Railroad Commission, referring to Exhibits Nos.12 to 18, inclusive, of petitioners and giving additional data.

Protestants oppose the granting of the petition herein on the following grounds:

1. That the Temporary Operating Agreement violates the constitution and statutes of California and the charter of the City of Los Angeles.

2. That the fair value of the property of the Edison Company and the Pacific Corporation for the use of which interest is to be paid by the City is too high.

3. That the rate to be paid by the City to the Edison Company and the Pacific Corporation for electric energy supplied by them is too high.

4. That the minimum amount of electric energy for which the City obligates itself to pay is greater than the amount which the City will use if it operates to capacity its hydro-electric plant in San Francisquito Canyon.

The subject matter of this opinion will now be considered under the following heads:

- I. Analysis of Temporary Operating Agreement.
- II. Legality of Temporary Operating Agreement.
- III. Fair value of Companies' electric distributing system.
- IV. Rate for electric energy sold by Companies to City.
- V. Minimum amount of electric energy to be paid for by City.

I. ANALYSIS OF TEMPORARY OPERATING AGREEMENT.

The Temporary Operating Agreement recites that the City has arranged for the purchase of the electric distributing systems of the Companies situated within the City and in certain small sections of unincorporated territory contiguous thereto; that it is necessary that bonds be voted and sold by the City for the purpose of obtaining the money to pay for said electric distributing systems; that the City, as a part of its plan for establishing a municipal system for supplying itself and its inhabitants with electric energy for the purpose of light, heat and power has constructed and placed in readiness for operation a hydro-electric plant in San Francisquito Canyon, with an installed capacity of 37,500 horse-power, and proposes to construct additional hydro-electric plants and contemplates the possibility that it shall acquire the steam-electric generating plant of Los Angeles Gas and Electric Corporation, located in the City; and that the City desires to sell to consumers within the City the electric energy produced at its said plants and to that end has arranged with the Companies that, pending the payment of the purchase price for said electric distributing systems and the conveyance and transfer thereof to the City, said systems shall be operated for account and benefit of the City.

The Agreement then provides substantially as follows:

1. That from and after May 1, 1917, until and including July 1, 1917, subject to an extension for an additional period, the Companies shall operate said distributing systems in behalf of and for the account and benefit of the City.

2. That during the life of the Temporary Operating Agreement, the Companies will take and distribute all the electric energy generated in the City's plants not distributed by the City over its own electric system and will supply from the plants

of the Companies such additional power as may be necessary to meet the demands of said consumers, provided that the quantities of electric energy to be taken and paid for from the plants of the Companies monthly shall not be less than the equivalent of amounts, for the respective months of the year, corresponding to a maximum yearly peak demand of 25,000 horse-power, at an annual load factor of at least 36 per cent, and that the amounts of electric energy for the respective months of the year and the corresponding maximum monthly peak demands and monthly load factors shall be as set forth in the Temporary Operating Agreement.

3. That the Companies shall be paid for electric energy supplied by them, based on annual load factor, as set forth in the Temporary Operating Agreement, provided that all payments shall be based on the actual yearly load factor, if such load factor equals 36 per cent and if less than 36 per cent, nevertheless on a yearly load factor of 36 per cent.

4. That the Companies shall maintain and keep said distributing systems in good operating condition and extend and improve the same so far as may be necessary.

5. That the maintenance and extension of said distributing systems and the conduct of the business thereunder shall be subject to the supervision and approval of a board consisting of two representatives designated by the Board of Public Service Commissioners and two representatives designated by the Companies, with a fifth person to be selected as arbiter in case the four cannot agree, and that if the matter in dispute is deemed of sufficient importance, the board may refer the same for settlement to the Railroad Commission.

6. That the Companies shall have charge and control of all matters pertaining to the operation of the distributing systems and the maintenance and extension thereof, subject to the authority of said board.

7. That the Companies shall collect from consumers

all moneys due for electric energy supplied and shall pay to the City daily the moneys collected less such moneys as are to be retained by the Companies, as provided by the Temporary Operating Agreement.

8. That the Companies shall be entitled to retain each month out of the amounts collected by them, as compensation for the use, operation and maintenance of their distributing systems, including extensions, for the benefit of the City and for electric energy furnished by the Companies, the following moneys:

(a) Interest on a sum determined as hereinafter set forth in this opinion.

(b) The actual cost incurred monthly by the Companies for the operation and maintenance of the distributing systems, including taxes and licenses, but not including replacements, extensions or betterments.

(c) For electric energy supplied monthly by the Companies, as set forth in the Temporary Operating Agreement.

(d) A depreciation allowance at the rate of 3.36 per cent per annum, payable monthly on the basis set forth in the Temporary Operating Agreement.

9. That the sums paid to the Companies monthly as an allowance for depreciation shall constitute a "depreciation fund", which shall be held in trust by the Companies and shall bear interest at the rate of 4 per cent per annum; that all necessary replacements shall be paid out of said fund at actual cost; and that if the purchase of said property by the City is consummated, any unexpended balance remaining in the "depreciation fund", together with accrued interest, shall belong to the City and be paid by the Companies to the City, but that if the City does not purchase the property, the balance in said fund shall remain the property of the Companies.

10. That the Agreement shall terminate on July 1, 1917, subject to extension thereof, at the election of the City, for an additional period expiring on July 1, 1919, with the right on the part of the City, at any time, upon three months' written notice given by the Board of Public Service Commissioners, ^{to terminate the Agreement and} subject also to termination by the voters of the City at an election.

11. That the City will not, during the life of the Temporary Operating Agreement, without the consent of the Companies, construct electric distributing lines paralleling or duplicating the distributing systems of the Companies or any part thereof, provided that this restriction shall not apply to the construction by the City of lines for transmission or street lighting purposes.

12. That the Temporary Operating Agreement shall be subject to the approval of the Railroad Commission.

13. That the Temporary Operating Agreement shall inure to the benefit of and be binding upon the parties, their successors and assigns.

The Agreement contains other provisions to which it is not necessary here to refer.

It was agreed at the hearing that the Railroad Commission should pass herein only on the Temporary Operating Agreement and not on the Purchase Agreement, hereinbefore referred to. It should be distinctly understood that the Railroad Commission does not herein in any way pass upon the Purchase Agreement or any provision thereof and that if such agreement should hereafter be presented to the Railroad Commission for approval, the Commission will be free to consider each provision thereof without prejudice from anything contained in the opinion and order herein.

II. LEGALITY OF TEMPORARY OPERATING AGREEMENT.

Protestants urge that the Temporary Operating Agreement violates certain provisions of the constitution and statutes of California and of the charter of the City of Los Angeles, and contend that the Railroad Commission for this reason should not approve the Agreement. Prior to the hearing, these same points had been set forth in proceedings brought by Los Angeles Gas and Electric Corporation against the City in both the State and Federal courts. The courts, and not the Railroad Commission, are vested with authority to decide ultimately whether the contentions of the Los Angeles Gas and Electric Corporation in this behalf are valid. On the facts of this case, we do not consider it necessary for the Railroad Commission to make any ruling on these questions of law.

III. FAIR VALUE OF COMPANIES' ELECTRIC DISTRIBUTING SYSTEMS.

The Temporary Operating Agreement provides that the Companies shall retain from the revenues collected by them, interest at the rate of 8 per cent per annum, payable monthly, on the following sums:

1. The sum of \$8,270,000.00, being the assumed fair value on January 1, 1917, of the electric distributing systems of the Companies affected by the Temporary Operating Agreement.
2. Such sum as shall be determined by the Railroad Commission as being the value of the distributing system, of the Companies in that part of the City of Los Angeles which is known as "Westgate Annexation District", as such system existed on January 1, 1917.
3. The actual cost to the Companies of extensions and betterments made to all said properties subsequent to January 1, 1917.

The Temporary Operating Agreement provides that in case the City pays to the Companies the purchase price of said electric distributing systems, the City shall be entitled to a credit on the purchase price of an amount equivalent to one-quarter of the sums payable to the Companies for interest as next hereinabove provided.

The sum of \$8,270,000.00, hereinbefore referred to, is derived as shown in Table I.

Table I.

Derivation of Sum of \$8,270,000.00.

Value of electric distributing system of Southern California Edison Company on June 30, 1915, fixed by the Railroad Commission in Decision No.3625, in Application No.1424,.....	\$4,750,000.00
Additions and extensions from July 1, 1915 to January 1, 1917,.....	232,104.00
Value of electric distributing system of Pacific Light and Power Corporation, affected by Temporary Operating Agreement, as of January 1, 1917,.....	<u>3,288,813.00</u>
Total,.....	\$8,270,917.00
Deducted in making settlement,.....	<u>917.00</u>
Total fair value as per Agreement,.....	\$8,270,000.00

As already indicated, the sum of \$4,750,000.00 is the amount fixed by the Railroad Commission in Decision No.3625 as the just compensation to be paid by the City of Los Angeles for the electric distribution system of Southern California Edison Company, with certain minor exceptions, in the City of Los Angeles and adjacent unincorporated territory.

The details of the item of \$232,104.00, being additions and extensions to the electric distributing system of the Edison Company from July 1, 1915 to January 1, 1917, are set forth in Exhibit No.12 of petitioners herein. This exhibit shows that

the actual cost of such additions and extensions was \$259,819.32, which sum is \$27,715.32 in excess of the amount assumed in the Temporary Operating Agreement. Nevertheless, the parties have agreed to this item on the basis of \$232,104.00 as originally agreed upon.

The item of \$3,288,813.00, agreed upon by the parties as the fair value of the electric distributing system of Pacific Light and Power Corporation, affected by the agreement, is reported by the parties to be the "investment cost" of the property as of October 31, 1916, with an estimated additional expenditure of \$20,000.00 for new construction during November and December, 1916. The actual expenditure for new construction during these two months, as shown in Exhibit No. 7 of petitioners, was \$12,624.00 less than the estimated expenditures. Here, too, the parties have used the sum first agreed upon, being \$3,288,813.00.

The items entering into this total sum are set forth in some detail in Exhibit No. 13 of petitioners. The so-called "investment cost" of the property as of October 31, 1916, is, in reality, not a book cost but is the estimated reproduction cost new of the property as of July 31, 1912, as estimated by J.G. White & Company, with adjustments for additions and deductions subsequent to that date to December 31, 1916. Attention should be drawn to the fact that the overhead percentages used by J.G. White & Company in their inventory and appraisal aggregate 22.75 per cent on a proper base figure. In Application No. 2651, being an application by the Edison Company and the Pacific Corporation for an order of the Railroad Commission authorizing the consolidation of their entire properties, the engineers for the Edison Company reported that a reasonable allowance for overhead on the property of the Pacific Corporation should not exceed 15 per cent. In this same proceeding, Mr. Richard Sachse, Chief Engineer of the Railroad Commission, used 13 per cent.

There is no testimony herein to show the value of the

distributing systems of the Companies in that portion of the City of Los Angeles which is known as the "Westgate Annexation District."

There is also no testimony to show the cost of additions and extensions to said electric distributing systems of the Companies subsequent to January 1, 1917.

The Temporary Operating Agreement further provides that the Companies shall have the right to retain out of the gross revenues received from them interest at the rate of 6 per cent per annum from May 1, 1917, payable monthly, on the sum of \$130,000.00, being severance damage, as estimated by the parties, as the result of making plant capacity idle. Mr. R. H. Ballard, assistant general manager of the Edison Company, testified that this amount had been derived on the basis of the Railroad Commission's decision in said Application No. 1424, of the sum to be paid by the City of Los Angeles to the Edison Company as severance damages. Mr. Ballard testified that he assumed that of the total severance damage of \$1,578,000.00 determined by the Railroad Commission, the amount of \$712,301.53 represented charges on property of the Edison Company not to be taken, to be made temporarily idle by reason of the severance of the Edison Company's Los Angeles properties and that by reason of the proposed sale of electric energy by the Edison Company to the City during the term of the Temporary Operating Agreement, this amount will be reduced by \$625,201.00, leaving idle plant carrying charges of the Edison Company, during the continuance of the Temporary Operating Agreement, amounting to only \$87,100.53. Mr. Ballard testified that 55 per cent of this amount had been added to represent the assumed severance damages to be suffered by the Pacific Corporation under the Temporary Operating Agreement. The ratio of 55 per cent was used for the reason that the gross revenue of the Pacific Corporation from its business herein under consideration was approximately 55 per cent of the gross revenue from the Edison Company's

business herein under consideration. There is nothing in the testimony herein to show definitely the relationship between the property or business of the Pacific Corporation in the territory herein affected and the remaining territory formerly served by this company. The ratio of 55 per cent as used in the determination of severance damages to be paid to the Pacific Corporation is confessedly no more than an approximation which was agreed to by the parties.

IV. RATE FOR ELECTRIC ENERGY SOLD BY COMPANIES TO CITY.

In the Temporary Operating Agreement, the City agrees to purchase from the Companies electric energy at rates ranging downward from 1.22 cents per K.W.H. to .5 cents per K.W.H., dependent upon varying annual load factor, and to purchase and to pay annually for at least 25,000 horse-power at an annual load factor of not less than 36 per cent.

The rates at which the City agrees to purchase from the Companies all electric energy required for distribution and sale in the City of Los Angeles, ~~and adjacent~~ and adjacent unincorporated territory in excess of the electric current produced in the City's plants, are as ~~indicated~~ shown in Table II.

Table II.

Rates to be Paid By City of Los Angeles to
Southern California Edison Company and
Pacific Light and Power Corporation, based
on Varying Annual Load Factors.

<u>Annual Load Factor.</u>	<u>Rates in Cents</u> <u>Per Kilowatt Hour</u>
36%	1.22
40%	1.11
45%	1.00
50%	.909
55%	.836
60%	.774
65%	.724
70%	.678

(Table II Continued)

<u>Annual Load Factor</u>	<u>Rates in Cents Per Kilowatt Hour</u>
75%	.639
80%	.604
90%	.546
100%	.500

These rates are based on the cost of supplying electric energy at the sub-stations of each of the Companies, as estimated by the parties herein.

Table III shows the estimate of sub-station cost at the actual load factors in 1915 and at ~~the~~ an assumed load factor of 36 per cent, both for the Edison Company and the Pacific Corporation, as estimated by the Companies.

Table III.

Substation cost at actual and 36% load factor, as estimated
by Southern California Edison Company and Pacific
Light and Power Corporation.

(Based on 1915 expenses)

	<u>Edison System</u>		<u>Pacific Light and Power System.</u>
	56.9% L.F.	36% L.F.	52% L.F.
Production and Transmis- sion Expense	\$ 509,013.93	\$ 437,920.28	\$ 230,027.00
General Expense	86,210.09	86,210.09	123,000.00
Interest and Deprecia- tion (10.42%)	1,330,559.93	1,330,559.93	2,385,000.00
State Taxes(5 ¹ / ₂ %)	106,705.00	102,766.40	160,000.00
Additional Steam Expense to correct for average water conditions	77,400.00	51,602.00	65,000.00
Correction for price of Fuel oil (1916)			18,930.00
Total corrected cost	\$2,109,828.95	\$2,009,058.70	\$3,053,000.00

(Table III Continued)

	<u>Edison System</u>		<u>Pacific Light and Power System.</u>
	56.9% L.F.	36% L.F.	52% L.F.
Substation output in K.W.H.	236,580,419	149,732,928	331,163,040
Equivalent cost per K.W.H.	\$.00892		\$.00922
Adjusted cost per K.W.H. at 36% load factor		\$.01342	\$.01335
Cost at 36% L.F. adjusted for diversity $\frac{(.01342 + .01335)}{2 \times 1.06} =$		\$.01262 per K.W.H.	
Arbitrarily reduced to		\$.0122 per K.W.H.	
Rate of \$.0122 equivalent on this basis to diversity factor of		1.096	

Attention should be drawn to the fact that in Table III a correction is made in the price of fuel oil in 1916.

If the weighted average of cost of the two companies is used instead of the simple average shown in Table III, the total weighted cost per K.W.H. for both companies would be \$.01292, which cost, when adjusted for diversity of 1.06, is \$.01219.

In an independent estimate of cost prepared by the Railroad Commission on the basis of the testimony submitted by the Edison Company and the Pacific Corporation in Application No. 2651, a cost was secured as shown in Table IV. This estimate is based on the combined operations of the unified systems of the Edison Company and the Pacific Corporation and allowance is made for the present increased price of fuel oil.

Table IV.

Estimated Sub-station Cost for 1917 for Consolidated
Systems of Southern California Edison Company
and Pacific Light and Power Corporation.

Production Expense	\$ 621,000.00
Transmission Expense	141,000.00
General and Miscellaneous Expense.....	128,212.00
Interest and Depreciation(10.42%).....	3,715,560.00
State Taxes.....	<u>273,224.00</u>
Total (1916 Conditions).....	\$4,878,996.00
Increased price of Fuel Oil.....	\$ 240,000.00
Adjustment of Taxes.....	<u>13,440.00</u>
Total (Corrected).....	\$5,132,436.00
Sub-station Output.....	567,740,000 K.W.H.
Equivalent Cost per K.W.H.....	\$.00904
Total Cost Adjusted for 36% Annual Load Factor,.....	\$5,031,606.00
Station Output @ 36% Load Factor.....	391,736,688 K.W.H.
Equivalent Cost per K.W.H. (36% Annual Load Factor).....	\$.01284
Adjusted for Diversity ($\frac{.01284}{1.06}$) per K.W.H.	\$.01211
Rate of \$.0122 Equivalent on this basis to Diversity Factor of.....	1.052

From an analysis of the costs shown in Table IV, it would appear from the data thus supplied by the Companies that the rate of 1.22¢ per K.W.H. for electric energy supplied by the Companies at an annual load factor of 36 per cent closely approximates the actual cost to the Companies.

The rates per K.W.H. corresponding to load factors higher than 36 per cent, as set forth in the Temporary Operating Agreement, conform reasonably to the varying cost of service at different load factors.

V. MINIMUM AMOUNT OF ELECTRIC ENERGY TO BE
PAID FOR BY CITY.

The Temporary Operating Agreement provides that the City shall purchase from the Companies during each month an amount of electric energy corresponding to a maximum yearly peak demand of 25,000 horse-power, at an annual load factor of at least 36 per cent. This provision means that the City is obligated to pay to the Companies during each year for electric energy to the amount of approximately 58,814,000 K.W.H. at the rate of 1.22¢ per K.W.H.. The minimum annual payment to be made by the City to the Companies for electric energy shall thus be not less than \$717,530.80.

Protestants urge that the amount of electric energy thus to be paid for by the City to the Companies is in excess of the amount which the City will need in case its San Francisco Canyon plant is operated to capacity. In other words, protestants urge that the City has bound itself either to pay for more electric energy than it needs or to permit its San Francisco Canyon plant to remain partially idle. We have given careful consideration to this contention.

As shown by Exhibit No. 17 of Petitioners herein, 112,419,452 K. W. H. of electric energy were delivered into the distributing systems of the Edison Company and the Pacific

Corporation from the various sub-stations of these companies in Los Angeles during the year ending March 31, 1917. This total does not include any electric energy sold by these companies to the railways. As shown by the same exhibit, the consolidated instantaneous peak on the systems of both companies in Los Angeles during the period stated was 30,878 kilowatts, corresponding to an average load factor of 41.6 per cent and the highest 15 minute peak was 30,123 kilowatts, corresponding to an average load factor of 42.6 per cent.

Mr. R. H. Ballard testified that, in his opinion, the peak during the first year of the Temporary Operating Agreement would be approximately 37,500 kilowatts for the two systems, being an increase of 21.4 per cent over the peak for the year ending March 31, 1917. Applying this same rate of increase to sub-station send-out, exclusive of energy supplied to the railways, the amount of electric energy delivered into the electric distributing systems of the Companies in the territory affected during the year ending April 30, 1918, would be approximately 136,477,200 K. W. H. As the City is obligated to purchase from the Companies 58,814,000 K. W. H., a balance of 77,663,200 K. W. H. would remain to be supplied from the City's generating plant.

Both the City and the Companies allege that the San Francisco Canyon hydro-electric plant is capable of generating 26,000 kilowatts, the full peak capacity of the plant, at 40 per cent annual load factor. If the plant were required to operate continuously at a steady load it would develop, by utilizing all the available water, only about 11,200 kilowatts. This type of plant is commonly known as a "peak load" plant, by reason of the nature considerably in fact that it is designed to carry peak loads of an intermittent/

excess of the normal continuous capacity of the water which operates it. With the water available, the City's plant should be able to deliver on the power house switch board about 98,112,000 K.W.H. per year. Assuming that 85 per cent of this energy can be delivered out of the Los Angeles sub-station, consideration being given to transformation and transmission losses and to the difficulty of regulation so as to conserve all the available water, the plant should be able to produce a maximum of 83,395,200 K.W.H. per year for distribution in the City of Los Angeles. However, owing to the nature of the load to be supplied in the City of Los Angeles, and to the contract obligations as between the City and the Companies, it is not likely that the City's plant will be able to operate at its full ultimate capacity during the operations of the first year.

It appears from the calculations hereinbefore set forth that on the assumptions herein contained, the City's San Francisco Canyon plant will be able to generate for distribution out of the Los Angeles sub-station an apparent surplus of 5,732,000 K.W.H. This surplus, however, is only an apparent surplus and not a real surplus, for the reason that the City will require constantly increasing amounts of electric energy for distribution in its own distributing system, which is constantly being enlarged ^{in certain sections}, and for its own street lighting service. Bearing these facts in mind, it does not appear that the minimum requirement in the Temporary Operating Agreement is unreasonable or that it will necessarily operate to the disadvantage of the City.

Attention should be drawn to the fact that under the Temporary Operating Agreement, the Companies shall have charge and control of all matters pertaining to the operation of the distributing systems. The Companies shall also have initial control over the maintenance and extension of said distributing systems and the conduct of the business, but with reference to these

matters, the Companies are subject to the authority of the board provided for in said Agreement.

The Railroad Commission has carefully considered each feature of the Temporary Operating Agreement. This Agreement is a business bargain which was entered into at arm's length by representatives of the City of Los Angeles and of the Companies, all of whom were ably advised and thoroughly understood what was being done. The Railroad Commission is not here called upon to itself make a bargain for the parties. The authority of the Railroad Commission is confined to passing upon the bargain already made and to determine whether there is any provision in the Temporary Operating Agreement by reason of which the Commission may or should justly withhold its approval from the Agreement. While there are certain features of the Agreement which we might have worked out differently had we initially made the Agreement, nevertheless, we are satisfied from a careful analysis of the same, looking at the Agreement in the large, that it should be approved.

In granting such approval, it must be distinctly understood that the Railroad Commission is not thereby passing on the reasonableness of any rate now in effect or on the presence or absence of discrimination with reference to any rate in any portion of the territory affected by the Temporary Operating Agreement.

As already stated, we do not herein pass on any portion of the Purchase Agreement.

We submit the following form of Order:

O R D E R.

A public hearing having been held in the above entitled proceeding and the same having been submitted and being now ready for decision,

IT IS HEREBY ORDERED that the Temporary Operating Agreement of April 30, 1917, between the parties hereto be and the same is hereby approved.

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 22nd day of June, 1917.

Max Thelen
H. B. Loveland
W. L. Gordon
Edwin C. Edgerton
Stanley R. Berlin

Commissioners.