

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE  
STATE OF CALIFORNIA.

Decision No. 41935

In the Matter of the Application )  
of Calistoga Electric Company for )  
Authority to Increase Rates. )

Application  
No. 2997.

C. M. Derby for the Applicant,  
N. W. Newton for Pacific Union College,  
C. F. Clark for Town of Calistoga.

BY THE COMMISSION.

O P I N I O N

In the application herein, the Calistoga Electric Company alleges in effect that the Company's present rates for service do not provide a reasonable and just return upon its capital investment, and that these rates do not equitably apportion the cost of service between its various classes of consumers. The applicant further alleges that certain abnormal operating expenses have recently arisen which will have to be provided for

and which could not have been taken into account when the present rates were designed. The Company states that its only method of financing additions and betterments is through appropriation of its net earnings for this purpose and that in order therefore to further develop the territory which it serves it is essential that reasonable net earnings should be allowed. The application also contains a request that certain existing special contract rates be eliminated.

A public hearing was held before Examiner Encell at Calistoga on October 2nd, 1917. It was stipulated at that time that any data regularly on file with the Commission, or any information which might be filed subsequent to the hearing and which is pertinent to the issues, may be considered in evidence herein.

The Calistoga Electric Company distributes electric energy for light and power purposes to the inhabitants of the Town of Calistoga in Napa County, and the surrounding suburban territory within a radius of ten miles therefrom.

Energy is purchased from the Napa Valley Electric Company at Bale Station about four and one-half miles southeast of Calistoga. Delivery is made at 6600 volts. The wholesale rate, as recently established by this Commission in Case No. 508, Decision No. 3876, Volume 11, Page No. 974, Opinions and Orders of

the Railroad Commission of the State of California, is 2 cents per kilowatt hour for the first 15,000 kilowatt hours per month and 1.7 cents per kilowatt hour for all energy in excess of 15,000 kilowatt hours per month. This order became effective on December 1st, 1916.

The applicant served 317 consumers during 1917 and operated about 27 miles of distribution lines, of which approximately 75 per cent are located in rural territory.

One of the Commission's assistant engineers, Mr. Wm. M. McKay, submitted an appraisal of applicant's electric properties based on the estimated historical reproduction cost theory. The results at which he arrived are shown in Table No. 1.

TABLE NO. 1

ESTIMATED HISTORICAL REPRODUCTION COST

<u>Item</u>	<u>Inside City</u>	<u>Outside City</u>	<u>Total</u>
*Organization	\$ 259	\$ 341	\$ 600
*Franchises	44	58	102
*Land & Rights-of-Way	19	26	45
Poles & Fixtures	3 707	7 820	11 527
Overhead System	3 023	5 156	8 179
Substation Equipment	48	165	213
Line Transformers & Devices	1 556	2 816	4 372
Electric Services	1 356	384	1 740
Meters	2 535	880	3 415

TABLE NO. 1

(Cont'd.)

ESTIMATED HISTORICAL REPRODUCTION COST

<u>Item</u>	<u>Inside City</u>	<u>Outside City</u>	<u>Total</u>
Municipal Street Light- ing System	\$ 907	\$	\$ 907
*General Equipment	1 402	1 844	3 246
*Undistributed Construc- tion Expenditures	2 032	2 672	4 704
*Interest during Con- struction	290	382	672
Total Operative	17 178	22 544	39 722
Non-Operative			125
GRAND TOTAL			\$39 847

NOTE: \* Prorated as to inside and outside  
on basis of proportion of the  
sum of other items.

A deduction for accrued depreciation estimated on the straight line basis indicates that the reproduction cost less depreciation of these properties is \$32,393.

The actual investment as shown by the Company's books is \$41,993.

Trustee C. F. Clark appeared for the Town of Calistoga and protested against the allowance for rate fixing purposes of all of the applicant's investment in rural lines. He urged that the inhabitants of the

town should not be required to bear the burden of the cost of furnishing service to consumers in the outside territory where the business involved is not sufficient to make it self-supporting.

The gross revenue received by the Company during the year 1916 and the first eight months of 1917, and the operating expenses for the same period, are set forth in Table No. 2.

TABLE NO. 2

GROSS REVENUE AND OPERATING EXPENSES

<u>Gross Revenue</u>		
<u>Class of Service</u>	<u>1916</u>	<u>First Eight months-1917</u>
Residence Lighting	\$ 3 693	\$ 2 393
Commercial Lighting	3 810	2 628
Power	1 770	1 328
Municipal Lighting	720	529
Total	\$ 9 993	\$ 6 878
 <u>Operating Expenses</u>		
Production	\$ 3 938	\$ 2 410
Distribution	563	730
Commercial	206	383
General	1 231	1 284
Total	\$ 5 938	\$ 4 807
Taxes	370	225
GRAND TOTAL	\$ 6 308	\$ 5 032

If it is assumed that the business during the last four months of 1917 will be proportional to that during the first part of the year, the net return for interest and depreciation, based on the estimated reproduction cost of \$39,722, will be 6.99 per cent. A reasonable depreciation annuity to be allowed for this property is \$1,417. If the net return be reduced by this amount, the rate of return for interest on the total investment will then be 3.4 per cent.

An analysis of the above figures based on the gross revenue for 1916, indicates that the investment inside the town is \$2.44 per dollar of gross revenue received therefrom, while the investment outside the town is \$7.18 per dollar of gross revenue received therefrom. If it were to be assumed that the applicant is not warranted in taking on business where the investment is greater in proportion to the gross revenue than that indicated by its business within the Town of Calistoga, the outside business would then be sufficient to carry an investment of only \$7,525, which amount added to the investment inside the town would result in a total justifiable investment of \$24,703. Even under these assumptions the net return for interest on the investment would still be only 5.5 per cent. The Commission does not hold that this is the proper method to follow in determining the justifiable investment of the

applicant, but simply cites these figures to demonstrate that even if the so-called outside territory be placed on a parity as to investment and gross revenue with the territory within Calistoga there would still be no justification for a refusal to grant applicant an increase in its present rates.

In addition to the operating expenses as set forth in Table No. 2, the applicant is obliged to meet the following abnormal expenses which it must arrange to amortize in the immediate future:

Reimbursement of Napa Valley Electric Company for service received under a contract at a rate subsequently found to be illegal,	\$3,081.
Estimated cost of reconstruction of applicant's lines to con- form with the State safety laws,	2,000.
Legal Expenses,	<u>500.</u>
Total	\$ 5,581.

The applicant is facing a further increase in its operating expenses on account of the fact that it is proposed to separate the operation of the electric and water properties which have hitherto been taken care of jointly by the same operating force. Mr. Derby estimates that this increase will amount to approximately \$1,710. per annum. His estimate is based on the assumption that each of the employees whose salary

is now divided between the two systems will have to be paid a full salary by the electric company and that the item of office rent will be increased in the same way. Such an arrangement would, of course, be unwarranted as undoubtedly the duties of the various employees will be consolidated so that the business can be carried on with a smaller number of men when the water department is eliminated. We believe that this increase should not exceed \$500. per annum.

The applicant is now serving 21 consumers under special contracts providing rates which are deviations from its regularly filed schedules. In every case these rates will be superseded by the rates established in the order herein.

The rates herein established will cause an increase in gross revenue of a little more than 10 per cent, and without providing for the amortization of the abnormal expenses noted above, will result in a net return on the applicant's total investment of approximately 4.5 per cent, or 7.5 per cent on the remaining investment if the capital in rural lines were reduced to the same basis of gross return per dollar invested, as exists within the corporate limits. It is apparent that the rural business, at least of the Calistoga Electric Company, is still in the development stage and it would therefore be unreasonable for the



Company to expect rates which under present conditions would yield a return of 8 per cent on its full investment even if it were possible to secure this business under such rates. Recognizing the difficulties to be met by reason of the limitations imposed by the value of the service, the rates hereinafter established are designed to encourage further development of new business, which it is believed will eventually result in the full realization by Calistoga Electric Company of the full return on its investment to which it may then be entitled.

No change will be made in the existing rates for street lighting, inasmuch as the Company has the right to make any concession in this regard which it may desire and inasmuch as no evidence was submitted which bears specifically on this class of service.

#### O R D E R

Calistoga Electric Company having made application to the Railroad Commission for authority to increase its rates, and a public hearing having been held, and the matter having been submitted and being now ready for decision, the Railroad Commission hereby makes the following findings of fact:

1. The Railroad Commission finds that the rates, rules, regulations, contracts and practices of the Calistoga Electric Company are unjust and unreasonable in so far as they differ from the rates, rules, regulations, contracts and practices herein established.

2. The Railroad Commission hereby finds that the rates, rules, regulations, contracts and practices herein established are just and reasonable rates, rules, regulations, contracts and practices.

Basing its order on the foregoing findings of fact and on each statement of fact contained in the opinion which precedes this order,

IT IS HEREBY ORDERED as follows:

1. Calistoga Electric Company is hereby authorized to establish and file with the Railroad Commission on or before December 20th, 1917, the following rates for the respective classes of electric service specified, which rates are found to be just and reasonable rates. These rates shall be made effective at the next regular meter reading date subsequent to said date of filing.

SCHEDULE NO. 1

General Lighting Rate

Based on the monthly consumption per meter.

10¢ per kilowatt hour for the first 100 kilowatt hours.  
5¢ per kilowatt hour for all over 100 kilowatt hours.

Minimum Monthly Charge \$1.00 per meter.

Motors of 1 horsepower and less may be included under  
this schedule.

SCHEDULE NO. 2

General Power Rate

Based on the monthly consumption per meter.

6¢ per kilowatt hour for the first 15 kilowatt hours  
per horsepower installed.  
3¢ per kilowatt hour for the next 30 kilowatt hours  
per horsepower installed.  
2¢ per kilowatt hour for all over 45 kilowatt hours  
per horsepower installed.

Discounts: A discount of 10 per cent will be allowed  
if the consumer owns transformers and  
is metered on primary side.

Minimum Charge: Minimum Monthly Charge \$1.00 per  
horsepower installed.

Minimum Monthly Bill \$1.00

### SCHEDULE NO. 3

#### Seasonal Power

The following rate applies to electrical energy supplied for seasonal power purposes such as wineries, water systems, irrigation, rock crushers, mines, summer resorts and other like industries.

#### Rate

Based on the yearly consumption per horsepower installed.

Meters to be read and bills rendered monthly.

6¢ per kilowatt hour for the first 150 kilowatt hours per horsepower installed,  
3¢ per kilowatt hour for the next 300 kilowatt hours per horsepower installed,  
2¢ per kilowatt hour for all over 450 kilowatt hours per horsepower installed.

Discounts: A discount of 10 per cent will be allowed if consumer owns transformers and is metered on primary side.

Minimum Charge: \$9.00 per horsepower per year but not less than \$27.00 per year.

### SCHEDULE No. 4

#### Municipal Street Lighting

This schedule of rates applies to all street, highway and other outdoor lighting and includes installation and all maintenance, operation and lamp renewals necessary for such service.

Unless otherwise agreed to between the Company and the consumer the following rates shall apply:

All night schedule, 4,000 hours per annum,  
\$1.50 per month for each 60 watt or  
80 candle power lamp.

2. Calistoga Electric Company is hereby directed to prepare and file with the Railroad Commission on or before January 1st, 1918, revised rules and regulations in accordance with the findings contained in this order, in the opinion preceding this order, and in Decision No. 2879, and satisfactory to the Railroad Commission.

Dated at San Francisco, California, this 6<sup>th</sup> day of December 1917.

Max Thelen

H. L. Loveland

Elis Gordon

Edwin O. Edgerton

Frazer R. Dyer

COMMISSIONERS