

ORIGINAL

Decision No. 5578

Decision No. _____

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

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In the Matter of the Application of
GREAT WESTERN POWER COMPANY, GREAT
WESTERN POWER COMPANY OF CALIFORNIA
and CITY ELECTRIC COMPANY for an
Order authorizing an Increase of
Rates.

for [unclear]
Application No. 3460

- ✓ -Chaffee E. Hall and Guy C. Earl, for Great Western Power Company;
- ✓ -Charles P. Cutten, for Pacific Gas & Electric Co;
- Parcell Rowe, for Reclamation District No. 501;
- J. W. Stuckenbruck, for various farmers known as Live Oak Club, between Stockton and Lodi;
- * Gavin McNab and Nat Schmulowitz, for California Central Creameries
- Sapiro, Neylan and Ehrlich, for California Federation of Farmers Co-Operative Marketing Association and the Associated Dairymen of California;
- Alfred T. Cluff, for Charles W. Slack, Natomas Company of California, and Yuba Consolidated Gold Fields;
- W. J. Weyand, for Power Users in the Dixon Vicinity, Solano District;
- Wilbur Walker, Secretary of Merchants of Oakland;
- John Barry and James Hallett, for certain individuals;
- D. C. Dinan, for Stauffer Chemical Company and San Francisco Sulphur Company;
- H. F. Kolb, for Hercules Powder Company;
- H. F. Harvey, for Power Users in the Galt District;
- W. C. Housken, for Power Users in the New Hope District;
- * Charles Lamb, for Reclamation District No. 348;
- Joseph E. Berry, for Power Users of Santa Rosa;
- ✓ -B. D. Marx Greene, for the Cities of Berkeley, Napa, Burlingame, Pittsburg, Antioch, San Rafael, San Leandro, Grass Valley, Woodland, and the City Attorneys' Association of

Northern California; for County of Santa Clara, on behalf of its industrial irrigation consumers; City of Santa Rosa; Town of Livermore; F. E. Booth Company; Pacific Spring Bed Company; Pacific Guano and Fertilizer Company; Philadelphia Quartz Company; Pure Carbonic Company; San Francisco Sulphur Company; Faun Concentrator Company; Standard Nut Meat Company; Standard Soap Company; Solano Iron Works; Pacific Container Company; Peet Bros. Manufacturing Company; and the City of San Jose;

- .R. E. Waterbury, for City of Oakland;
- .W. E. Harvey, for Standardized Cream Company;
- .L. F. Leurey, for Sperry Flour Company and California Hawaiian Sugar Refining Co;
- .Norman A. Eisner, for Leslie Salt Refining Company and United Motion Picture Industries of Northern Cal;
- .Thomas H. Reed, City Manager, and Earl Lamb, City Attorney, for the City of San Jose;
- .F. H. Martell, for California Mill Company;
- .Archibald Yell, for the City of Sacramento;
- .Bishop and Bahler and R. T. Boyd, for Oakland Chamber of Commerce;
- .T. C. Judkins, town Attorney, for the Town of Emeryville;
- .Chickering and Gregory and H.F. Jackson, for Sierra and San Francisco Power Company;
- .W. P. Hendry, for Central Eureka Mining Company;
- .Chickering and Gregory, for Western States Gas and Electric Company;
- .Daniel V. Marceau, for City of Stockton;
- .George Lull and John J. Dailey, for City and County of San Francisco;
- .Charles S. Wheeler and John F. Bowie, for Universal Electric and Gas Company (Case No. 840);
- .E. A. Palm, for Washington Improvement Club;
- .J. V. Hart, for County of Sacramento.

DEVLIN and EDGERTON, Commissioners.

O P I N I O N

This is an application on behalf of the Great Western Power Company, Great Western Power Company of California and City Electric Company for authority to increase electric rates. These three companies are physically interconnected and are jointly operated from a commercial and financial standpoint, and in accordance with the request expressly set forth in the application, we shall regard all of said companies as an entity and hereafter refer to them as applicant.

Applicant alleges that the shortage of water power has necessitated an abnormal increase in the operation of its steam generating plants with a resulting increase in the consumption of fuel oil; and further that applicant's system requires funds for ordinary extensions and other additions and betterments, which applicant states should be derived from the earnings of said system; that both the prices of materials and wages have increased over an extended period and that there is a continually increasing demand for electric power from its system; that its net earnings have relatively decreased since the outbreak of the war; that as a result of the conditions set forth applicant will be unable to pay its obligations; that applicant's credit and service will be seriously impaired, and further, that the only remedy lies in an increase in rates heretofore paid by its consumers.

Various hearings were held on this application in connection with a similar application by Pacific Gas and Electric Company. During the hearings it was agreed between all parties that by reason of the emergency that exists at the present time, and owing to the delay which would attend a complete presentation and analysis of all the testimony for the purpose of establishing a rate of a permanent nature,

that the Commission should on the evidence before it and as expeditiously as conditions would permit, fix rates which are herein referred to as emergency rates, to be operative until a complete and thorough presentation and consideration by the Commission of all of the evidence necessary to the establishment of permanent rates.

During the course of the proceedings it developed that the increased cost of operation affected other classes of consumers than those originally set forth in the application, and to this extent the original prayer of the applicant was amended so as to permit the Commission to grant whatever relief it deemed proper, and to distribute the added burden of increased costs over any or all classes of consumers.

Treating this proceeding as one of emergency nature to the extent hereinbefore set forth and in order to effectuate the necessary relief, we feel that we should, for the purpose of this proceeding and order, assume the reasonableness of existing rate schedules, which in an ordinary proceeding would be subject to an extensive investigation and submission of evidence. In so far as existing rates are concerned we shall, therefore, proceed under such assumption that in general the existing rate schedules distribute the charges in a fairly reason-

able and proper manner between the several classes of consumers.

The factors contributing to the present emergency are set forth in our opinion in Decision No. 5519, Application No. ~~3459~~³⁴⁵⁹, of Pacific Gas and Electric Company. The evidence submitted by applicant shows that its operations have been influenced by many of these factors, but the extent to which the present emergency has affected applicant is very much less in proportion, than the curtailment of Pacific Gas and Electric Company's earnings.

There are pending before this Commission a number of other proceedings involving the electric rates of applicant, to-wit:

Application No. 3358 for Removal of Deviations in territory outside of San Francisco.

Application No. 3359 for Removal of Deviations in San Francisco.

Case No. 840 - San Francisco Electric Rates.

Case No. 931 - Sacramento Electric Rates.

Case No. 1109 - Rate for Pacific Electro Metals Company.

Case No. 1204 - Oakland Electric Rates.

By stipulation all of these proceedings are consolidated herewith in so far as their subject matter affects the relief to be granted.

From the evidence, we conclude that applicant's sales of electricity during the year 1918 will

be approximately 333,000,000 kilowatt hours. This is an increase of 10 per cent over and above the sales of energy for the year 1917 after deducting the energy delivered under the United Railroads' contract, which expired in October of that year.

Under the existing rates it appears that applicant will derive, from its sales of electricity and from other sources of income, revenue as follows:

Sales of Electricity	\$3 770 789.00
Merchandising Revenue	200.00
Sales of Steam for Heating	160 000.00
Minimum under Western Canal Co. Contract	<u>150 000.00</u>
Total	\$4 080 989.00

For the year 1918, applicant will be required to produce at its various hydro-electric and steam power plants approximately 455,000,000 kilowatt hours of electric energy, the major portion of which will come from the Big Bend hydro-electric plant on the Feather River. Applicant's engineers estimated the probable output of this power station, and submitted, in addition, records of stream flow of the Feather River for an extended period in the past. After careful review of all the evidence on the water resources of applicant, we conclude that the 1918 output of the Big Bend plant will be approximately 363,000,000 kilowatt hours.

The other sources of energy are the Butt Creek hydro-electric plant, the steam heating plants located in San Francisco and Oakland, which produce electric energy in conjunction with steam for heating, and the steam power plants used exclusively as auxiliary stations. In addition applicant purchases a small quantity of energy from other utilities.

The following table shows the energy sources of the Great Western Power System for the year 1917, with an estimate for the year 1918, together with ^{the} corresponding consumption of fuel oil in the steam heating and power plants:

TABLE I.

GREAT WESTERN POWER SYSTEM
ENERGY SOURCES.

	1917		Estimate 1918	
	<u>K.W.H.</u>	<u>Bbls. of Oil</u>	<u>K.W.H.</u>	<u>Bbls. of Oil</u>
<u>Hydro Plants:</u>				
Big Bend	426 421 000		363 000 000	
Butt Creek	6 438 000		7 000 000	
Total Hydro	432 859 000		370 000 000	
Steam Heating Plants	6 976 000	148 470	8 900 000	145 000
Steam Power Plants	18 166 000	205 934	75 768 000	361 000
Purchased Energy	332 000		332 000	
Total	458 333 000	354 404	455 000 000	506 000
Total Sales	335 782 093		332 934 467	

This analysis shows a reduction of approximately 63,000,000 kilowatt hours of available hydroelectric energy with a corresponding increase in the production by steam power plants. It also takes into consideration the new Bush Street plant, which will operate in 1918, producing both steam heat and electricity, but which during 1917 was not used as a source of electrical energy. The increase in fuel consumption of 1918 over 1917 is approximately 150,000 barrels of oil, which is not in proportion to the outputs of steam plants because of the fact that during 1917 the steam power plants operated at very low efficiency as stand-by stations, whereas in 1918 they will operate under conditions more conducive to efficiency and economy.

Applicant is fortunate in the possession of contracts for fuel oil which do not expire until december 31st, 1918, through which it is able to obtain a supply of at least 600,000 barrels per annum at 75 cents, 77-1/2 cents and 87-1/2 cents per barrel, the latter figure applying to the small steam heating plants to which deliveries are made in tank wagons. It is very evident, therefore, that the operating expenses of applicant will be affected by the price of oil only in so far as exists the necessity for increased production of energy in steam power plants.

We do not overlook the fact, however, that when these contracts expire at the close of the present year, applicant will be required to pay more than double the present price of oil, and will suffer a corresponding increase of operating costs.

Table II following shows the revenue and operating expenses of the consolidated system for the year 1918. This is based upon the original figures of the Company with some re-segregation of accounts, and otherwise modified in accordance with the evidence and testimony herein.

In this table we have materially modified the estimate of taxes for the year 1918 as proposed by the applicant. In computing the tax item of operating expenses, applicant has departed from the position originally assumed of treating its affairs as a single consolidated company. As the inter-company revenues and profits necessitate the payment of larger taxes, both to the State and to the Federal Government than would be the case of a single utility, it seems inconsistent to include taxes paid on inter-company revenue and profit, and we have, therefore, endeavored to determine the tax accruals of 1918 business on the basis of a single corporation.

TABLE II.

GREAT WESTERN POWER SYSTEM

REVENUE, EXPENSES AND INCOME - 1918.

Operating Revenue	\$ 4 080 989
Operating Expenses:	
Production excl. Oil	280 000
Oil for Steam Heat and Power Plants	406 649
Transmission	81 500
Distribution	200 000
Commercial	195 000
General & Miscellaneous	148 000
Taxes, Accrued	297 733
Other Expenses	80 500
Uncollectible Accounts	20 000
Rents and Miscellaneous	<u>2 400</u>
Total Operating Expense	1 711 782
Net Revenue from Operations	2 369 207
Non-Operating Expense Net	<u>2 000</u>
Total Net Revenue	2 367 207
Deductions:	
Interest on Funded Debt	1 568 000
Less Interest on Funded Debt Owned	<u>1 000</u>
Net Interest Deductions	1 567 000
Note Interest	42 000
Amortization of Debt Discount and Expense	<u>68 000</u>
Total Deductions	1 677 000
Net Income	690 207

On the basis of the figures deduced herein, the revised net income from operations, after the payment of all expenses, is \$2,369,207.00, which is \$123,777.00 less than was actually earned in 1917, and which reflects a reduction of only 5% in the net income of 1918 over 1917. If from this figure of net revenue we deduct the interest on bonds and debentures outstanding, the interest on notes and other charges, there remains a balance to surplus of \$690,207.00, which is \$165,568.00 less than the corresponding figure for the year 1917.

Applicant has not in the past set up, nor does it at the present time charge off, from income any reserve to care for the depreciation and replacement of its properties. Our figures above do not include any allowance for depreciation. In the absence of suitable figures of valuation of applicant's properties, it is difficult to state definitely a proper annual charge for depreciation, but from our general knowledge of the extent and character of applicant's properties, we believe that applicant should be required to set aside out of earnings the sum of \$360,000.00 per annum for this purpose.

Applicant made no showing as to values of property. It indicated, however, that a valuation was being prepared and was to be subsequently filed.

Applicant is in competition with Pacific Gas and Electric Company as to probably 90% of the business served. Under such conditions as at present exist, it is obvious that applicant's rates should be as nearly as possible the same as those of the Pacific Gas and Electric Company. We deem it proper, therefore, to increase the rates charged by applicant to the same degree that we have modified the electric rates of the Pacific Gas and Electric Company in Decision No. 5519, Application No. 3459, excepting, however, certain classes of service; to-wit: municipal street lighting, electric railways and other electric corporations, the rates for which are in all cases fixed by contracts outside of the scope of regular filed schedules. If the municipal street lighting consumers, electric railways and other corporations continue to pay only existing rates, no competitive advantages or disadvantages will result.

In Decision NO 5519, Application No. 3459, we have discussed at some length the existence of so-

called deviations from filed rate schedules of the Pacific Gas and Electric Company. A large number of Applicant's consumers herein are likewise paying other than schedule rates for service to which filed schedules apply. To this extent a similar discrimination exists between these consumers and the large bulk of consumers who pay under schedule rates. Applicant has requested removal of certain of these deviations. The occasion is at hand for such removal and we deem it proper at this time that all deviations be now removed.

We realize that in removing deviations some users of electricity will have their burdens materially increased. We cannot at this time anticipate the results of this action upon individual consumers and must consider them as in a class who are in general enjoying a privilege which discriminates as between them and other consumers.

The Commission may, if it deems advisable hereafter, order the filing of new rate schedules for certain classes of service if the carrying out of this order demonstrates the need of such action. This will result in but two classes of rates applicable to the consumers of these companies:

First: Filed Schedule Rates.

Second: Special contract rates in which the character of service places them beyond the scope of the regularly filed rate schedules.

The small number of consumers which fall under the second class pay rates outside the scope of the regular filed schedules which, in general, are lower than the rates of such filed schedules because of the peculiar conditions incidental to the service of these consumers, such as favorable load factor, large consumption and other factors. These consumers are not considered as deviations, and will be subject only to such general increase as may be hereinafter ordered, except, however, that we will insist that conditions of discrimination which may exist between consumers of this class shall be removed, subject to determination by the Commission.

Applicant has submitted figures showing the extent to which its present revenues are reduced by reason of the existence of deviation rates. From a review of this data, we conclude that the removal of so-called deviations will increase revenue of applicant by approximately \$200,000.00 per annum.

In addition to this increase in revenue applicant will derive from the surcharges set forth in the order herein \$680,000.00 additional revenue as follows:

<u>CLASS OF SERVICE</u>	<u>K.W.H.SALES</u>	<u>SURCHARGE</u>	<u>ADDITIONAL REVENUE</u>
Comm'l Lighting	35,000,000	1 cent	\$350,000.00
" Power	<u>165,000,000</u>	2 mills	<u>330,000.00</u>
T O T A L	200,000,000		\$680,000.00

Considering all sources of additional revenue above mentioned, applicant will obtain approximately \$880,000.00 per annum in excess of the revenue under existing rates. This, after the deduction of such taxes, both State and Federal, as shall be paid on the added income will result in sufficient earnings to absorb all increased costs due to the emergency and to provide, in addition, sufficient for the establishment of depreciation and other reserves not heretofore set up.

Protestants have made the plea that if rates are to be raised in this instance, the revenue to be collected in excess of that obtained from existing rates should be impounded or its disbursement limited, and held subject to a final determination of reasonable rates for applicant's electric service. However, it was stipulated in the hearings by all parties to the proceedings that ^{if} it be determined by the Commission at some later date in connection with the final determination of just and reasonable rates, that the increase herein granted in this order is unduly high, that the excess

above the return hereafter determined to be reasonable, be returned in such manner as the Commission may determine. We believe, however, that applicant should use moneys received from the increases herein authorized only as this Commission may from time to time direct until such time as, from complete evidence and investigation, this Commission shall have ordered otherwise.

We submit the following form of order:

O R D E R

Great Western Power Company, Great Western Power Company of California and City Electric Company having applied to this Commission for authority to increase electric rates, hearings having been held, the matter being submitted in so far as the present emergency feature is concerned, and now ready for decision, the Railroad Commission of the State of California hereby finds as a fact that the payment of rates by certain consumers lower than the filed schedule rates where such filed schedule rates apply to their class of service constitutes a discrimination against other consumers purchasing energy under filed schedule rates; that the earnings of these companies have been curtailed by reason of the present emergency conditions; that the existing rates of applicant should be modified by the addition of

the surcharges hereinafter set forth; and that the earnings of applicant thus increased by the addition of said surcharges will adequately compensate it for increased operating expenses and will further provide it with sufficient earnings to establish and maintain a depreciation reserve and other reserves.

Basing its order on the foregoing findings of fact and other findings of fact contained in the Opinion which precedes this order,

IT IS HEREBY ORDERED that on and after the 10th day of July 1918, the Great Western Power Company, Great Western Power Company of California and City Electric Company shall charge and collect for electric energy sold only the schedule rates now on file with the Railroad Commission of the State of California, except for energy sold under special contracts to which no filed schedule rates apply, and except for energy sold to those classes of consumers to whom applicant may grant free or reduced rates as set forth in Section No. 5, of General Order No. 45 of this Commission;

IT IS HEREBY FURTHER ORDERED that Great Western Power Company, Great Western Power Company of California, and City Electric Company be and are hereby authorized to charge and collect for electric energy sold in addition to the rates and charges

established in the preceding paragraph of this order the following surcharges applicable to the classes of service and in the amounts, respectively, set forth, to-wit:

For energy sold for lighting service except municipal street lighting.....1 cent per K.W.H.

For energy sold for power service including heating and cooking, except for energy sold to electric railways and other electric corporations..... 2 mills per K.W.H.

PROVIDED:

I. That Great Western Power Company, Great Western Power Company of California and City Electric Company shall, within 10 days of the date of this order, file with the Railroad Commission of the State of California, a statement showing rates to which each of the surcharges hereinbefore authorized shall apply, which statement shall constitute an amendment to existing rate schedules on file.

II. That this order shall not prevent the Great Western Power Company, Great Western Power Company of California and City Electric Company from hereafter filing new rate schedules subject to the approval of the Railroad Commission of the State of California if such new schedules shall not conflict with the purpose and intent of the provisions of this order.

III. That Great Western Power Company, Great Western Power Company of California and City Electric Company shall designate separately on bills rendered their consumers for electric energy the amounts due them

under authorized surcharges.

AND PROVIDED FURTHER THAT

I. Great Western Power Company, Great Western Power Company of California and City Electric Company, and affiliated corporations comprising the Great Western Power Company System shall, within ten days of the date of this order, file with the Commission a stipulation to the effect that they will set up out of earnings a depreciation reserve in the amount of not less than \$30,000 per month, beginning with the month of July 1918, and for each month thereafter, until otherwise ordered by this Commission, said depreciation reserve to be apportioned among the above corporations and to be used by them in a manner to be subsequently approved by this Commission.

II. That Great Western Power Company, Great Western Power Company of California, City Electric Company and affiliated corporations comprising the Great Western Power System shall, within ten days of the date of this order, file with this Commission a stipulation to the effect that they will set aside out of the earnings such other reserves as the Commission may deem necessary from time to time.

IT IS HEREBY FURTHER ORDERED That Great Western Power Company, Great Western Power Company of California and City Electric Company are hereby directed to file with the Commission within 90 days of the date of this order a complete inventory and valuation

of all properties severally and individually owned and operated, and in the event of failure so to do, this Commission will give consideration to a modification of this order.

IT IS HEREBY FURTHER ORDERED:

I. That Great Western Power Company, Great Western Power Company of California and City Electric Company file with the Commission on or before the 20th day of each month a statement covering their capital expenditures, revenues and expenses for the preceding month and for the period beginning January 1st, 1918, and such other information as the Commission may hereafter designate.

II. That Great Western Power Company, Great Western Power Company of California and City Electric Company shall file with this Commission within 30 days of the date of this order, and on the first day of each and every month thereafter, a statement of consumers receiving electric service at other than filed schedule rates, together with such other information as this Commission shall hereafter designate.

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 of June, 1918.

Edwin O. Edgerton
W. H. Boardman
Ellis Jordan
Paul R. DeLoach

Commissioners