

Decision No. 5711-

ORIGINAL

BETWEEN THE RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA.

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In the Matter of the Application )  
of CALIFORNIA TELEPHONE AND LIGHT ) APPLICATION NO. 3740  
COMPANY to increase Electric Rates. )

Leo H. Susman for Applicant.  
Frank Sprague for Board of  
Trustees, Town of Sonoma.  
C.E. Towle for Boyes Springs.  
J.R. Leppo for Town of Cloverdale.  
F.E. Laumann for Town of Fulton.  
J.W. Given for Forestville Section.  
L. Hillis for Greton Church.  
J.E. Grant for Russian River Gravel Co.  
R.K. Emperan for Sonoma City Water  
Works.  
L.E. Ridenhour for certain farmers on  
Russian River.  
C.W. Irwin for Pacific Union College  
Association.  
H. Von Arx for City of Calistoga.

GORDON, Commissioner.

O P I N I O N

This is an application by California Telephone and Light Company for an order of the Railroad Commission authorizing it to increase all of its present rates for electricity by 30 per cent. Applicant urges this specific increase from a desire to raise its earnings

to 8 per cent on capital invested in the property and at the same time to offset the increased cost of labor and material used in the operation of its property.

A hearing was held at Santa Rosa on June 14th, 1918, at which time evidence was introduced and the matter submitted with the understanding that a further examination of applicant's affairs would be made by the Commission's Gas and Electric Department, and the results thereof considered in evidence. This being completed, the matter is now ready for decision.

The Commission has but recently established the electric rates of applicant. After an exhaustive investigation, Decision No. 4433 in Application 2171 and Case No. 917, fixed just and reasonable electric rates for applicant which became effective August 1st, 1917.

By stipulation all of the evidence introduced in these prior proceedings is made a part of the record herein.

In connection with Application No. 2171 and Case No. 917 above, the Commission's investigation of applicant's electric business showed that it was earning a net return of about  $4\frac{1}{2}$  per cent on its investment in electric properties, and the Commission, in its order, stated that due to the scattered community served, to the development stage of the property and to the prevailing rates in adjoining territories that it was not possible for applicant to earn a higher return than the above figure. This viewpoint was agreed to by applicant's management and the following paragraph quoted from Decision No. 4433 indicates substantially the difficulties

of fixing rates that would yield applicant a higher return.

"If the applicant's electric rates in this instance were to be fixed on such basis as to yield the company theoretically an adequate return comparable with larger utilities, after the payment of all necessary operating expenses and depreciation, such a rate would be prohibitive to the consumers and would affect a material decrease in the company's business."

Applicant now comes before the Commission asking a rate increase that will produce a return materially beyond what its own experience indicates as attainable, and substantially greater than applicant would have earned in normal times. It is true that applicant's operating expenses have been affected by the increased cost of materials, and the wages paid to employees have followed the rising scale of the labor market. To this extent the earnings of applicant have been reduced to less than the earnings which it would have enjoyed had normal conditions continued. In many of the recent decisions we have recognized these emergency conditions, but we have stated clearly that a utility, which under normal conditions did not enjoy a commensurate return, cannot expect to have its return under present abnormal conditions raised to a point where its consumers would be required to bear any more of the increased costs than shall be found necessary to re-establish the normal fair rate of earnings.

Applicant's electric business is entirely that of a distributing company. All of its energy sold is purchased from other larger generating and transmission systems. Only in a limited sense is its service neces-

sary to essential war industries.

The Following table shows the capital, revenue, operating expenses and net income of applicant's electric business for several years past:

	1914	1915	1916	1917	Estimate on Basis of 1918 Sales at Existing Rates
Average Capital	\$365,000	\$405,500	\$425,000	\$445,000	\$460,000
Gross Revenue	\$69,819.47	\$73,535.68	\$78,962.47	\$87,470.65	\$100,000
Operating Expenses	37,064.75	41,921.44	43,691.57	51,125.08	63,700
Uncollectible Bills	520.00	469.80	1,545.00	538.98	500
Net Operating Revenue	32,224.72	31,144.44	33,725.90	35,806.59	36,800
Depreciation	12,800.00	14,200.00	15,000.00	15,600.00	16,100
Net Income	\$19,424.72	\$16,944.44	\$18,725.90	\$20,206.59	\$20,700
Return on Capital	5.3%	4.18	4.4%	4.55	4.50

The rates fixed by Decision No. 4433 have been in effect since August 1st, 1917. Applicant set forth in an exhibit the revenue and expense for the first seven months' operations under these new rates and the Commission's Gas and Electric Department has compiled applicant's revenue and expense for the succeeding three months from its books and records. On the basis of these ten months' operations, and from a consideration of the probable increases in operating costs, due to increases in the cost of labor, supplies and purchased power, the figures above set forth have been deduced as a reasonable estimate of the revenue and expenses for the year 1918. Consideration has been given to the increased cost of power purchased for the entire year, resulting from the increase in the wholesale

power rate charged by the Pacific Gas and Electric Company as authorized in this Commission's Decision No. 5519, and to the normal growth of applicant's business. The above figures may, therefore, be more properly described as statements of the probable revenue for 1918 under present rates, and the probable expenses, taking into account all the increases in costs which will be effective for the ensuing year applied to the 1918 operations. From this analysis it appears that applicant's net return for 1918 will be practically equal to the earnings derived during preceding years of normal operation.

The operating expenses of applicant will be increased by approximately \$4,500.00 per annum however in excess of the normal, and had normal conditions continued, the company's net earnings would have increased by approximately that amount. The investigation of the Commission's engineers shows that applicant is not maintaining its property to the extent necessary to give continued good service. Further expenditures are necessary to insure the upkeep of the properties and the safety of operation. For this purpose additional revenue should be allowed applicant to cover more extensive repair.

Applicant is required to make only the ordinary extensions to its distributing system to care for the normal growth of the business, and does not require additional capital for an increase of generating facilities, such requirements being cared for by the larger utilities which supply energy sold by it. Applicant has been able to finance its normal extension requirements in the past in

spite of its low earnings, and I am of the opinion that if the Commission in this instance so modifies applicant's rates as to allow it sufficient to meet its increased costs and to more satisfactorily maintain its system, that both applicant and its consumers will be reasonably benefited thereby.

I am of the opinion that the electric rates of California Telephone and Light Company should be increased to the extent indicated above, by means of surcharges to be added to its existing rates. The surcharges set forth in the order herein will result in an increase of approximately \$8,500.00 per annum in applicant's gross revenue, and will provide applicant with sufficient funds to compensate for the increased costs of operation and to further allow sufficient funds for the more adequate maintenance of its properties and the improvement of the service, without in any way impairing the return heretofore received by applicant under normal conditions.

I submit the following form of order:

### O R D E R

California Telephone and Light Company having applied to this Commission for an increase of rates, a hearing having been held and the matter being submitted and now ready for decision, the Railroad Commission of the State of California hereby finds as a fact that the electric rates of California Telephone and Light Company are unjust and unreasonable in so far as they do not provide applicant with a sufficient return under present conditions and in so far

as they differ from the rates and charges hereinafter fixed, and basing its order on the foregoing findings of fact and on the findings of fact contained in the opinion which precedes this order.

IT IS HEREBY ORDERED that California Telephone and Light Company be and is hereby authorized to charge and collect for electric energy sold, based on all regular meter readings taken on and after the first day of September 1918, in addition to its regularly filed schedules of rates, the following temporary surcharges, to-wit:

For energy sold for lighting service, exclusive of municipal street lighting ... 1¢ per K.W.H.

For energy sold for power service, including heating, cooking, etc. .... 2 mills per K.W.H.

PROVIDED, California Telephone and Light Company shall, within ten days of the date of this order, file with the Railroad Commission, a statement of the surcharges herein authorized as an amendment to its rate schedules, and further provided, California Telephone and Light Company shall indicate on the bills rendered its electric consumers the amount of the surcharges herein authorized.

IT IS FURTHER ORDERED that California Telephone and Light Company shall, on or before the 20th day of each month, file such statements of its revenues, expenses,

capital expenditures, etc., for the preceding month and such other periods as the Commission may hereafter designate.

The foregoing Opinion and Order is 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 26th day of August, 1918.

Edwin O. Edgerton  
H. B. ...  
...  
Frazer ...  
Commissioners.