

13.
Decision No. 5768

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

In the Matter of the Application)
of the COAST COUNTIES GAS AND)
ELECTRIC COMPANY for an Order)
fixing Electric Rates.)

Application
No. 3923.

S. Waldo Coleman, for Applicant.
W. R. Springer, for City of Santa Cruz.
W. G. Fitzgerald, for Town of Gilroy.
J. A. Merrill, for City of San Juan.
A. W. Sans, for City of Watsonville.

DEVLIN, Commissioner.

O P I N I O N

This is an application of the Coast
Counties Gas and Electric Company for an order of
the Commission modifying its electric rates, made
necessary by the increased costs of operation

occasioned by the war emergency.

Applicant alleges that the materials used in the operation of its electric properties have substantially increased in price; that wages paid its employees have been advanced and will continue so to do; that as a result of Decision No. 5519 of the Railroad Commission, in which the Commission raised the rate for power purchased by applicant from Pacific Gas and Electric Company, its production cost is likewise increased; that the cost of oil used in its steam power plants has more than doubled and that for at least the last six months of this year an abnormally greater output of its steam power plants is necessary on account of the general shortage of power in Northern and Central California. Applicant further alleges that its margin of earnings has been so reduced that unless relief is granted it will be seriously embarrassed in both its service and finances, and asks that rates be fixed for electric service that will produce a return at least equal to that resulting from applicant's electric operations for the year ending May 31st, 1917, and preferably in the form of a surcharge so that relief will be afforded at an early date.

A hearing was held at Santa Cruz on August 15th, 1918, testimony introduced and the matter submitted for decision.

Coast Counties Gas and Electric Company is engaged in the production, distribution and sale of electric energy in the Counties of Santa Cruz, Monterey, San Benito and Santa Clara. Its system covers generally these counties and the cities and towns of Santa Cruz, Watsonville, Hollister, San Juan, Gilroy and Morgan Hill therein. Applicant owns and operates a small hydro-electric plant located at Swanton in Santa Cruz County, and auxiliary steam generating plants at Santa Cruz and Watsonville. The major portion of the energy sold by it, however, is purchased from the Pacific Gas and Electric Company, delivery of which is made at Davenport and Morgan Hill.

At December 31st, 1917, applicant was serving with electricity 6,727 consumers, and during the same year sold to consumers a total of 6,293,900 kilowatt hours for light and power.

Applicant's gross revenue from electric operations and its operating expenses, exclusive of depreciation, for the years 1915, 1916 and 1917 are shown in Table I following:

TABLE I

COAST COUNTIES GAS AND ELECTRIC COMPANY

ELECTRIC OPERATING REVENUE AND EXPENSES

Year ended December 31st,	<u>1915</u>	<u>1916</u>	<u>1917</u>
Gross Revenue	\$245 736	\$260 511	\$283 340
Production Expense, Net	51 356	58 722	69 500
Transmission Expense	5 750	6 311	5 345
Distribution Expense	15 491	17 793	18 082
Commercial Expense	9 830	11 013	14 319
General & Misc. Expense	15 568	14 359	15 064
Taxes	<u>13 575</u>	<u>14 265</u>	<u>16 187</u>
Total Operation Expenses*	\$111 570	\$122 463	\$138 497
Net Revenue for Depreciation & Return	134 166	138 048	144 843

NOTE: *Uncollectible Accounts not included.

I shall now proceed with a consideration of the factors which have affected the operating expenses of applicant, for which it asks reimbursement in the form of higher rates to its consumers. I have set forth above that the major portion of the energy sold

by applicant is obtained by purchase from Pacific Gas and Electric Company. The rate established by a former contract for this purchase of power averaged 9.85 mills per kilowatt hour. By Decision No. 5519, effective July 10th, 1918, the former rate in applicant's contract was modified by the Commission's order, and further by the addition of a surcharge of 1 mill per kilowatt hour for all energy thus purchased. The effect of these two modifications is that energy purchased by applicant will hereafter cost at least 10.85 mills per kilowatt hour.

Under normal conditions applicant's steam generating plants at Santa Cruz and Watsonville were operated only as stand-by stations to insure continuity of service on its system.

Prior to September 30th, 1917, applicant paid for fuel oil 77 cents and 88 cents per barrel at Santa Cruz and Watsonville respectively. Upon the expiration of its oil contracts, the cost of oil to applicant has increased so that after August 9th, 1918, it pays for oil, including added freight charges, \$2.00 and \$2.10 per barrel at Santa Cruz and Watsonville respectively. In this connection it is important to note that under normal conditions applicant's

consumption of fuel oil is moderate, but due to the present power shortage, not only in applicant's own hydro-electric plant, but in the hydro-electric plants of the Pacific Gas and Electric Company, it has been necessary to operate both of applicant's steam generating plants at the highest possible output since August 1st, 1918, which operation must, in all probability, continue until the close of the present year. The effect of both of these factors is set forth in some detail later.

Applicant's management has found it necessary to meet the rising scale of wages paid its employees engaged in both construction and operation. Applicant has submitted for the information of the Commission a carefully prepared statement of the payroll increases it will be compelled to meet in the immediate future. It appears from an analysis of these figures that during the 12 months ending June 30th, 1919, applicant's expenses for labor in the operation of its electric business will be \$10,400.00 more than its labor expenses for the preceding 12 months, and further shows as a fact that during the preceding year its increased labor costs were nearly \$4,000.00 in excess of the corresponding item for the year ending June 30th, 1917.

Costs of materials used in the maintenance and operation of its properties have also risen, and some curtailment of revenue, due to the Daylight Saving Act and the orders of the Power Administrator in certain industries and businesses served by it, has occurred.

The territory served by applicant does not include any war industries or developments of a character requiring an increased use of electric power for war purposes. The growth of applicant's business has been nominal during the last few years and it is not anticipated that any substantial increase in the sales of electric energy will occur in the immediate future. I am of the opinion that applicant's revenue, due to the character of its business and territory served, will increase but slightly in the year ending June 30th, 1919.

The following statement, compiled from the exhibits submitted by applicant, shows in some detail the revenue and operating expenses less depreciation of applicant's electric business for the year ending June 30th, 1918, with an estimate of the corresponding revenue and expenses for the year ending June 30th, 1919, and the increases in each item:-

TABLE II.

COAST COUNTIES GAS AND ELECTRIC COMPANY
INCREASES IN ELECTRIC OPERATING EXPENSE

Year ended June 30th,	<u>1918</u>	<u>1919</u> <u>Estimated</u>	<u>Increase</u>
Gross Revenue	\$292 834	\$292 858	\$ 24
Production Expense	86 258	112 525*	26 267
Transmission Expense	5 004	6 510	1 506
Distribution Expense	20 734	24 763	4 029
Commercial Expense	14 257	16 045	1 788
General & Misc. Expense	16 792	18 290	1 498
Taxes	17 647	20 000	2 353
Uncollectible Bills	<u>1 560</u>	<u>1 700</u>	<u>140</u>
Total Operating Expenses	\$162 252	\$199 833	\$ 37 581
Net Revenue for Depreciation and Return	\$130 582	\$ 93 025	\$ 37 557**

NOTE: * Includes latest increases
in oil costs.

** Decrease.

A reduction in purchased energy and a correspondingly larger output of steam produced energy with higher prices and increased use of fuel oil for

the period under consideration, has greatly increased applicant's production costs. The increases shown for transmission, distribution, commercial, general and miscellaneous expenses are due to the increased wages paid employees and the increased cost of materials used under these classifications.

From Table II above, it will appear that applicant's estimated net revenue, exclusive of depreciation, for the year ending June 30th, 1919, will be \$93,025.00, which is \$37,557.00 less than that resulting from its operations for the preceding fiscal year, with existing rates in force, and \$49,437.00 less than that earned for the year ended May 31st, 1917.

Applicant asked that it be reimbursed so that it will obtain a net revenue at least equal to that it received for the year ending May 31st, 1917, which was the sum of \$142,461.58, shown in Exhibit "A". The reasonableness of applicant's earnings may, for the purposes of this proceeding alone, be determined from an examination of the value of applicant's properties and a comparison of the same with the net revenue thus earned for the year ended May 31st, 1917. Applicant has submitted a valuation of its electric properties as of April 1st,

1912, compiled by J. G. White and Company in the sum of \$1,079,559.00, and with additions and betterments set forth in applicant's books and records of June 30th, 1918, in the sum of \$1,473,963.00.

It appears that the overhead charges used in this valuation are excessive for applicant's electric properties, and that the above figure of \$1,079,559.00 should be reduced by the sum of \$70,845.00, leaving a corrected figure for the properties as of April 1st, 1912, in the sum of \$1,008,714.00. This, together with the additions and betterments set forth above, with reasonable allowances for materials and supplies and working capital, results in a figure of \$1,342,025.00, which closely approximates the value of the properties as of January 1st, 1917, as set forth in Table III. I use this figure of \$1,342,025.00 as a reasonable valuation of applicant's electric properties as of January 1st, 1917, to measure the returns obtained from its operations, for the purposes of this proceeding alone, however. In using this figure, it must be understood that it in no way fixes the value of applicant's electric properties for any purpose other than the present emergency proceeding. The net revenue of \$142,461.58 set forth above for the year ended May 31st, 1917, after the deduction of

TABLE III.

COAST COUNTIES GAS AND ELECTRIC COMPANY

ELECTRIC CAPITAL.

J. G. White Appraisal, Apr. 1, 1912, Corrected for Overhead,		\$1 008 714.
Net Additions:		
Apr. 1, 1912 to Aug. 31, 1913	\$182 508	
Sept. 1, 1913 to Dec. 31, 1914	61 761	
Jany. 1, 1915 to Dec. 31, 1915	20 809	
Jany. 1, 1916 to Dec. 31, 1916	<u>18 233</u>	
		<u>283 311</u>
Total Physical Properties, January 1, 1917		\$ 1 292 025
Add Tools, Materials and Sup- plies and Working Capital		<u>50 000</u>
Valuation as of January 1, 1917		\$ 1 342 025
Physical Properties as of Jany. 1, 1917		\$ 1 292 025
Additions:		
Jany. 1, 1917 to June 30, 1917	\$ 17 825	
July 1, 1917 to Dec. 31, 1917	15 144	
Jany. 1, 1918 to June 30, 1918	20 091	
Estimated Additions to Dec. 31, 1918	<u>15 000</u>	
		<u>68 060</u>
Total Physical Properties, January 1, 1919		\$ 1 360 085
Add Tools, Materials and Sup- plies and Working Capital		<u>55 000</u>
Valuation as of January 1, 1919		\$ 1 415 085

of a proper allowance for depreciation, corresponds to a return of about 8 per cent upon the value of the properties as of January 1st, 1917. I am of the opinion that this does not constitute an unreasonable or excessive rate of return, and further that applicant's electric rates should be so modified that the resulting revenues will provide it with a return comparable to the above figure, and further provided no undue burden falls upon its consumers.

Applicant's rates on file with the Commission for electric service, although not fixed by this Commission in any of its earlier proceedings, appear to afford a fairly reasonable apportionment of the cost of service under normal conditions among the several classes of service for which schedules are provided. Such being the case with applicant's rates, I deem it advisable to apportion the necessary additional revenues among applicant's various consumers in the form of surcharges for the different classes of service.

Applicant has on file with this Commission, in addition to its regular rate schedules, certain deviations therefrom in the form of special contracts. An examination of these contracts indicates that little discrimination, if any, exist as between these

consumers under contract and the larger group of consumers served under filed rate schedules. It further appears that if consumers now being charged under special contract rates were placed upon the regular rate schedules that substantially no difference in their bills for electricity would arise. For the purpose of establishing uniformity and simplifying the rate situation in this regard, I deem it advisable at this time that all such so-called deviation rates be discarded and that all consumers heretofore enjoying such special rates be now placed upon the regular rate schedules applicable to their classes of service.

The surcharges set forth in the order herein, when applied to the sales of energy, will produce additional revenue as follows:

Lighting,	1,800,000 k.w.h. at 1.5¢ per k.w.h.	\$ 27 000.00
Power,	4,343,000 k.w.h. at .5¢ per k.w.h.	21 715.00
Street Lighting,	10% of Bills,	<u>2 180.00</u>
Total Annual Increase in Revenue from Surcharges		\$ 50 895.00

The Union Traction Company, operating an electric street railway system in Santa Cruz and sub-

urbs, obtains its power from applicant. This Railway Company is owned and controlled by applicant, and obtains the power for the operation of its cars direct from applicant's system. Heretofore Union Traction Company has paid applicant for power at a rate of 1 cent per kilowatt hour, which has been deducted from the total cost of power, and the net thus derived has been charged to applicant's other electric consumers. On this basis, Union Traction Company would not now pay a rate commensurate with the service obtained. In providing for a charge to be made to Union Traction Company for its power, I have used a figure of 1.2 cents per kilowatt hour, which I believe to be reasonable for their supply under present conditions. This may be stated in the form of a 1 cent rate plus a 20 per cent surcharge. The order herein will, therefore, provide for a surcharge for electric railway power of 20 per cent, and the increase in revenue from the Union Traction Company will thus correspondingly reduce the charge for energy to applicant's other consumers.

Applicant will earn from the surcharges hereinafter fixed, gross and net revenue as follows:-

Gross Revenue from Existing Rates	\$ 292 858
Additional Revenue from Surcharges	<u>50 895</u>
Total Gross Revenue	\$ 343 753
Operating Expenses from Table II.	\$ 199 833
Additional Taxes on Surcharges	<u>3 054</u>
Total Operating Expenses	202 887
Net Revenue for Depreciation and Return	\$ 140 866

The net revenue of \$140,866.00 to be thus earned for the year ending June 30th, 1919, after the deduction of a reasonable depreciation allowance, corresponds to a return slightly in excess of 7 per cent on \$1,415,085.00, the valuation hereinafter established for January 1st, 1919. This is \$1,596 less than the net earned for the year ending May 31st, 1917, but \$47,841.00 more than would have resulted from existing rates. Thus applicant, itself, will bear part of the added costs of operation, as well as its consumers.

The total additional revenue to be thus obtained will not be sufficient to meet the increased expenditures and allow applicant its former net revenue.

The rate increases, however, are all that should be borne by applicant's consumers.

The surcharges set forth in the order herein will provide applicant with sufficient additional revenue to absorb most of its increased operating costs, and the collection of these surcharges, in addition to the charges established by the regularly filed rate schedules of applicant, will not unduly burden its consumers, nor will it provide applicant with more than a reasonable return from its electric operations.

I submit the following form of order:

ORDER

Coast Counties Gas and Electric Company, having applied to this Commission for an order fixing electric rates, a hearing having been held, the matter submitted and being now ready for decision, the Railroad commission of the State of California hereby finds as a fact that the rates now charged for electric service by applicant are insufficient to provide applicant with an adequate return, and to

this extent and in so far as they differ from the rates hereinafter established, the existing rates of applicant are not just and reasonable rates, and further, that applicant's existing rates, when modified by the addition of the surcharges hereinafter set forth, will be just and reasonable rates.

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

IT IS HEREBY ORDERED that on and after the 20th day of September 1918, Coast Counties gas and 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 of rates applies, 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 Coast Counties Gas and Electric Company be and is 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 ser-

vice and in the amounts respectively set forth, to-wit:-

For energy sold for lighting service, including domestic, commercial and municipal metered service,	1.5¢ per k.w.h.
For energy sold for power service, including heating and cooking	5 mills per k.w.h.
For energy sold for municipal street lighting	10% of monthly bills.
For energy sold for electric railways	20% of monthly bills.

Which surcharges shall apply on all regular meter readings taken on and after the 20th day of September 1918.

Provided, Coast Counties Gas and Electric Company shall, within ten days of the date of this order, file with the Railroad Commission of the State of California a statement showing the rates to which each of the surcharges hereinbefore authorized shall apply, which statement shall constitute an amendment to existing rate schedules on file; and that Coast Counties Gas and Electric Company shall designate separately on the bills rendered its consumers for electric energy the amount due it under the authorized surcharges.

IT IS HEREBY FURTHER ORDERED that Coast Counties Gas and Electric Company shall file with the Commission, on or before the twentieth day of each month, a statement covering its 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.

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 17th
day of September 1918.

Edwin O. Edgerton

W. H. Boardman

W. G. Boardman

W. H. Boardman

COMMISSIONERS