

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

In the Matter of the Application)
of the WESTERN STATES GAS AND)
ELECTRIC COMPANY, a corporation,)
for an Order increasing its)
Electric Rates in its Stockton)
Division.)

Application
No. 3962.

- ✓ Chickering and Gregory, and Nutter and Hancock, for Applicant.
- ✓ Daniel V. Marceau, for Cities of Stockton and Placerville.
- Arthur L. Levinsky, for Stockton Electric Railroad Company.

DEVLIN, Commissioner.

O P I N I O N

This is an application by Western States Gas and Electric Company for an order of the Commission increasing electric rates in its Stockton Division.

Western States Gas and Electric Company, hereinafter referred to as applicant, alleges that its operating expenses have greatly increased due to the reduction in its available supply of hydro-electric energy; to the increase in the cost of fuel oil used in steam production of energy; to increases in rates for power purchased by it from other public utilities; to increases in wages paid its employees, and to increased taxes and insurance; and further, by reason of the abnormally increased operation of its steam generating plant under the orders of the Power Administrator of California, to supply the deficiency in energy not only on its own system but on systems from which it purchases energy for redistribution.

As a result of the above conditions, applicant states that the return from its electric operations has been and will be so reduced as to prevent it from earning a reasonable return on its investment under existing rates, and that immediate emergency relief is necessary in order to enable it to continue to perform its duty to its consumers in a satisfactory manner.

A hearing was held at Stockton on August 29th, 1918, at which time applicant submitted evidence embodying a very complete analysis of its

affairs. The matter was then submitted and is now ready for decision.

Western States Gas and Electric Company is engaged in the production, transmission and distribution of electric energy and in the manufacture and distribution of gas in several different sections of the State. In this proceeding, however, we are concerned only with applicant's electric business in the territory known as its Stockton Division.

The energy supplied to consumers in the Stockton Division is obtained in part from applicant's hydro-electric plant on the American River, supplemented by an auxiliary steam generating plant located in the City of Stockton. The largest portion, however, of applicant's energy supply is purchased from other electric utilities at wholesale. Applicant is supplied by Pacific Gas and Electric Company with energy at Stockton, Natoma and Sacramento, by Great Western Power Company at Sheldon, and by Sierra and San Francisco Power Company at Manteca.

Applicant's electric business in its Stockton Division has enjoyed a steady growth for a number of years, and considering the fact that

its rates for light and power are lower than those of other similar utilities in the same section of the State, its earnings have been very substantial.

The following compilation (Table I) from the exhibits submitted by applicant, shows the revenue and expense of the Electric Department, Stockton Division, for the years ended June 30th, 1917, and June 30th, 1918, and an estimate of revenue and expense for the year ending June 30th, 1919.

Applicant bases its revenues for the year ending June 30th, 1919, upon probable increase in its business to meet both the normal growth of the territory it serves, and upon the further expansion of industries and agricultural development in its territory. Applicant bases its operating expenses for the year ending June 30th, 1919, upon the normal increase of its operating expenses to supply its increased business, and upon the extra expenses thereto due to causes set forth above, which include the following:

1. An increase in the energy to be generated by steam during the last six months of the year 1918, partly on account of reduced hydroelectric supply, and partly to supplement the general shortage of

TABLE I.

WESTERN STATES GAS AND ELECTRIC COMPANY
STOCKTON DIVISION
REVENUES AND EXPENSES, ELECTRIC DEPARTMENT
AS SUBMITTED BY APPLICANT.

Year ending June 30th,	1917 <u>Actual</u>	1918 <u>Actual</u>	1919 <u>Estimated</u>
<u>Revenues:</u>			
Gross Electric Revenues	\$699 826	\$808 005	\$942 211
Miscel. & Non-Operating	<u>1 504</u>	<u>1 939</u>	<u>1 970</u>
Total Revenue from Existing Rates	701 330	809 944	944 181
<u>Operating Expenses:</u>			
<u>Production:</u>			
Hydro - Maintenance	9 149	7 815	11 800
Operation	13 170	12 490	14 759
Steam - Maintenance	913	2 537	2 775
Fuel	9 128	11 886	61 907
Operation	13 489	14 012	21 955
Purchased Power	<u>120 891</u>	<u>169 036</u>	<u>262 801</u>
Total	166 740	217 776	375 997
Less Energy to Other Depts.	<u>9 977</u>	<u>13 271</u>	<u>14 850</u>
Total	156 763	204 505	361 147
<u>Transmission:</u>			
Maintenance	10 890	8 275	13 190
Operation	8 617	8 896	12 489
<u>Distribution:</u>			
Maintenance	13 062	12 497	18 115
Operation	22 427	24 482	28 735
<u>Commercial:</u>			
New Business	5 745	6 595	5 150
Other Expense	13 848	15 305	19 368
<u>General & Miscellaneous:</u>			
Insurance	7 455	8 459	11 638
Taxes	42 486	53 565	78 331
Uncollectible Accounts	<u>3 518</u>	<u>4 016</u>	<u>4 721</u>
Total	355 992	419 353	641 097
Net Operating Revenue Available for Depreciation and Return	\$345 338	\$390 591	\$303 084

power in Central California as required by the orders of the Power Administrator.

2. The general shortage of power resulting in a curtailed delivery of energy by the companies from which applicant purchases energy at wholesale.
3. An increase in the cost of fuel oil to applicant from approximately \$.75 per barrel to \$1.60 per barrel, which prices hold until November 1st, 1918, and thereafter at \$1.75 per barrel for a period of one year.
4. As a result of Decision No. 5519 of the Railroad Commission, the electric rates of Pacific Gas and Electric Company were modified and increased, with a resultant increase in the cost of power purchased by applicant from Pacific Gas and Electric Company.
5. By Decision No. 5867, Application No. 3958, of Sierra and San Francisco Power Company, the wholesale rate for energy purchased by Western States Gas and Electric Company from Sierra and San Francisco Power Company was increased by 1-1/2 mills per kilowatt hour. This was anticipated in part by applicant in its exhibits herein.
6. During the year ended June 30th, 1918, the wages paid to applicant's employees have increased 19.41 per cent on an average.
7. Applicant shows that its expense for insurance will be increased in the future both as a result of increases

in the premium rates paid for casualty insurance and increases in payroll shown above.

8. Applicant's taxes will be similarly increased due principally to the high rates of Federal taxation now being assessed.

The extent to which applicant asks reimbursement for increased operating costs are shown by it as follows:-

Increases in Cost due to:

Labor	\$ 28 201.00
Fuel Oil for Steam Plant Operation	55 335.00
Labor and Maintenance for Steam Plant Operation	3 491.00
Purchased Energy	14 354.00
Insurance	1 243.00
Taxes	<u>18 990.00</u>
Total	\$ 121 614.00

Several of the items of extra expense set forth above are based upon the changes in costs that have occurred since the year 1915, as for example, the increase in the cost of oil for fuel and increase both in State and Federal tax rates. I

think, however, that consideration should not be given in this proceeding to any increased costs except such as are due to abnormal conditions resulting from the war.

In this proceeding we have no basis of value of the electrical plant of applicant's Stockton Division other than an inventory and appraisal prepared by H. M. Byllesby and Company as of July 31st, 1914, supplemented and brought up to date of June 30th, 1918, by the actual book charges to capital account. Applicant further submits a statement of its necessary capital expenditures to electric plant, Stockton Division, for the year ending June 30th, 1919, and has made certain corrections to the original Byllesby valuation, for example, the elimination of several items of non-operating property and a reduction in the overhead charges used, and with these modifications presents a figure of capital as

of June 30th, 1918, in the amount of \$3,488,787.47. From the actual additions and betterments to capital prior to June 30th, 1918, and from the estimated additions for the year subsequent to this date, we can deduce from applicant's own figures the following amounts of average capital in its electric properties, Stockton Division:-

For the year ended June 30th, 1917	\$ 3 044 406.00
For the year ended June 30th, 1918	3 363 321.00
For the year ending June 30th, 1919,	3 605 537.00

Applicant's figures do not include any materials or supplies or working capital, and can be considered only as its estimate of capital invested in physical properties. Making suitable allowance for material and supplies and working cash capital for each of the years above indicated, I arrive at the following figures of average capital:-

For the year ended June 30th, 1917	\$ 3 165 000.00
For the year ended June 30th, 1918	3 495 000.00
For the year ending June 30th, 1919	3 760 000.00

It will not be necessary to pass upon the reasonableness of applicant's figures of capital or to establish herein a return upon a fair value of applicant's properties. We shall make no findings of valuation and will use the figures of capital as submitted by applicant only for the purpose of effecting a comparison between applicant's capital and actual earnings in the past, and as between the corresponding figures under conditions which applicant shows will obtain for the year ending June 30th, 1919. Such comparison follows:

<u>For Year ending June 30th</u>	<u>Average Capital</u>	<u>Net Operating Revenue for Depreciation And Return</u>	<u>Ratio of Net Revenue To Capital</u>
1917	3 165 000	345 338	10.91%
1918	3 495 000	390 591	11.18%
1919 Est.	3 760 000	303 084	8.06%

The above figures show not only a growth in net operating revenue that has kept pace with the growth of applicant's business, but also clearly evidence the fact that applicant's net earnings have increased in greater proportion than have its

capital expenditures. In other words, the conditions shown by applicant's own figures for the year ended June 30th, 1918, indicate a more satisfactory return than in any preceding year, and the trend of these figures shows every indication of continued improvement in earning capacity of applicant's properties. The ratio of net operating revenue to capital of 11.18 per cent actually earned for the year ended June 30th, 1918, may be regarded as a net return of 8.93 per cent upon applicant's own statement of capital after the deduction of 2.25 per cent, which I regard as a sufficient depreciation allowance for applicant's electric properties in its Stockton Division.

While we do not in this proceeding pass upon the fair value of the applicant's properties, it is not probable that applicant has underestimated its capital in the exhibits herein. If this be true, applicant's electric operations in its Stockton Division showed a very substantial profit and return upon its own figures of capital.

In the light of these rather exceptional earnings prior to June 30th, 1918, which reflect applicant's ability to meet the increases in expenses that have occurred prior to this date, I

will therefore confine myself to a consideration of the additional expenses to which applicant's operations will be subject for the year ending June 30th, 1919, over and above the items of expense as they existed during the year ending June 30th, 1918.

Applicant prepared its figures of future expense at a time when the prospect of water power shortage during the remaining months of the current year was imminent. Subsequently decided improvements in weather conditions and rainfall have modified the present shortage of power both on applicant's system and upon the systems from which applicant purchases power. During the months of July, August and September, applicant's steam power plant at Stockton was operated at practically full load by order of the Power Administrator of California. Such operation was discontinued in the early part of October and it now appears that for the remainder of the year applicant will be able to obtain approximately normal supply of energy from its hydro-electric system, and purchase the full required amount from the other utilities supplying it. The operation of applicant's steam plant during the three months above mentioned has resulted in an increased expense to it, which, from the figures submitted by applicant, amounts

to approximately \$20,000.00 in excess of normal operating costs.

I propose to determine applicant's operating expenses for the twelve months ending June 30th, 1919, on a basis of normal water power conditions after October 1st, 1918, and allowing for the expense of steam plant operation under the Power Administrator's orders for the months of July, August and September, on such a basis as will include the costs that will probably hold during this period.

For the year ending June 30th, 1919, applicant states that its sales of electricity will be 51,297,860 kilowatt hours, for which it will be necessary to generate and purchase a total of 64,943,510 kilowatt hours, the difference being the loss incident to transmission and distribution of energy. This supply, under conditions estimated from the evidence presented, would be obtained as follows:-

From:	<u>Kilowatt Hours</u>
Applicant's Hydro Electric Plant	26 792 000
Applicant's Steam Plant	<u>2 735 010</u>
Total Generated	29 527 010
Sierra and San Francisco Power Company	11 263 000
Great Western Power Company	942 600
Pacific Gas and Electric Company:	
Stockton	7 900 600
Natoma	15 010 300
Sacramento	<u>300 000</u>
Total Energy Purchased	35 416 500
Total Energy Generated and Purchased	64 943 510

Applicant's estimated operating expense for the year ending June 30th, 1919, as shown in the third column of Table I preceding, appears to be a reasonable estimate of the expenses which will have to be met with the following exceptions.

Applicant has estimated the sum of \$61,970.00 for fuel oil, and \$21,955.00 for steam production operation, and based this assumption upon the necessity for continuous operation of steam power for the last six months of 1918. The operation of this steam plant was required

only for July, August and September 1918, as here-
inbefore set forth, and it does not appear that
for the remainder of the developments applicant
will be required to produce by steam in excess of
the normal stand-by operation. I believe that
applicant's steam plant operations for a year un-
der actual conditions and at the price for oil
and labor, which applicant is now required to meet,
will not exceed \$35,250.00 for fuel oil, and
\$20,354.00 for steam power plant operation. I
shall use these figures in place of those submit-
ted by applicant for these two items.

Applicant has estimated its cost of pur-
chased power for the year ending June 30th, 1919,
as \$262,801.00. The amount of power to be
purchased by applicant in this period is very
much in excess of the amounts purchased in pre-
ceding years, and the price of such power has been
increased as a result of the rate increases here-
tofore granted by this Commission to Pacific Gas
and Electric Company in Decision No. 5519, and to
Sierra and San Francisco Power Company in Deci-
sion No. 5867. Not only has the power purchas-
ed from Pacific Gas and Electric Company been in-
creased by the surcharge fixed in Decision No.

5519, but the basic rate itself has been modified since the former contracts have been considered as deviations, and applicant has been placed upon the regular resale schedule of Pacific Gas and Electric Company. Also the amount of energy purchased will be greater than shown by applicant due to reduction in steam plant operation.

These considerations have required a recomputation of the cost of purchased power from the several companies supplying applicant. Under the rates that now prevail and charged applicant by Pacific Gas and Electric Company and Sierra and San Francisco Power Company and Great Western Power Company, the cost of purchased power to applicant to supply the amounts set forth above for the year ending June 30th, 1919, has been estimated by the Commission's Gas and Electric Division as \$277,900.00. This figure I shall adopt in lieu of applicant's original estimate.

Applicant has included as operating expenses for the year ending June 30th, 1919, the sum of \$78,331.00 for taxes. This item is composed of the State tax on gross revenue, franchise tax payable to the City of Stockton, certain non-operative taxes and Federal income, stock and

coupon taxes. The Federal taxes to which applicant is liable show an enormous increase over those paid in preceding years, resulting from present and proposed higher rates of Federal taxation to meet war expenses. Considerable discussion has been had and some difference of opinion exists as to who should ultimately pay what may be called the war tax charged a public utility; that is, whether the consumers should pay the same by allowing such taxes to the utility as operating expenses, or whether they should be borne by the utility itself.

What may be termed ordinary taxes, Federal, State and municipal, have been uniformly recognized as proper operating expenses and such taxes will be allowed herein as operating expenses. It does seem illogical, however, that when the Federal Government attempts to impose upon the security holders of a corporation, whether public utility or non-public utility, a certain tax upon income for war purposes or to meet a national emergency, that the purpose and spirit of such law should be thwarted by the utility passing such taxes along to its consumers as an operating expense to be collected in rates.

The question then arises as to where the line should be drawn to distinguish between the ordinary Federal, State and municipal taxes and the war emergency taxes. The answer to this, it seems to me, is in the act of Congress passed October 3rd, 1917, entitled "An Act to Provide Revenue to Defray War Expenses and for Other Purposes", which is supplementary to the act of Congress entitled "An Act to Increase the Revenue, and for Other Purposes", approved September 8th, 1916. This act, by its title and text, declares for the collection of taxes for war purposes.

Previous to the enactment of the act of October 3rd, 1917, the Federal income tax assessable against applicant was on the basis of 2 per cent per annum; by the terms of said act such tax was increased to 6 per cent per annum. At the present time legislation is pending before Congress which, when finally enacted, will undoubtedly result in a very substantially increased tax rate over that provided for in the act of October 3rd, 1917.

I am compelled to take the view that both the letter and the spirit of the existing Federal war revenue law (and it is but fair to assume likewise of any new law enacted for the same purpose during the present session of Congress) clearly

contemplates the payment by the owners of utilities of that part of the tax assessed for war purposes provided for therein. This purpose would be defeated by allowing same as operating expenses and thereby imposing same on the consumers of utilities through rates.

I have, therefore, made a segregation of the income taxes allowing as operating expenses so much thereof as was assessed against applicant by Federal law prior to the act of October 3rd, 1917. Any increases over that, due to war conditions, should be borne by the security holders of the utility. Likewise and for the same reasons, the increased taxes on capital stock, coupons, and other increases of a similar character are chargeable to the utility and not to the consumer thereof. I have, therefore, reduced applicant's item of taxes from \$78,331.00 to \$62,646.00, which latter is the amount applicant would be required to pay for existing State and franchise taxes and for Federal taxes as heretofore levied.

In all other respects I believe applicant's estimated expenses for the year ending June 30th, 1919, are reasonable and include them in the following statement (Table II.) of revenue and expenses for the year ending June 30th, 1919.

TABLE II.

WESTERN STATES GAS AND ELECTRIC COMPANY
ELECTRIC DEPARTMENT, STOCKTON DIVISION
REVENUE AND EXPENSES FOR THE YEAR
ENDING JUNE 30TH, 1919.

Revenue from Existing Rates \$ 944 181

Operating Expenses:

Production:

Hydro Maintenance	\$ 11 800
Operation	14 759
Steam Maintenance	2 775
Fuel Oil	35 250
Operation	20 354
Purchased Power	277 900
	<u>362 838</u>

Less Energy to Other Depts. 14 850

Total Production Expense \$ 347 988

Transmission Maintenance and Operation	25 679
Distribution Maintenance and Operation	46 850
Commercial	24 518
General and Miscellaneous	88 213
Maintenance	11 638
Taxes	62 646
Uncollectible Accounts	<u>4 721</u>

Total Operating Expenses \$ 612 253

Net Operating Revenue \$ 331 928

On this basis applicant will earn from existing rates on its business which it estimates will occur for the year ending June 30th, 1919, and with the expenses which it will be required to pay during such period, at the costs which will prevail, a net operating revenue of \$331,928.00.

This net operating revenue is \$58,663.00 less than that actually earned during the year ended June 30th, 1918. A comparison with applicant's estimated capital for the year ending June 30th, 1919, shows that existing rate will yield 8.84 per cent on capital for depreciation and return. Not only will applicant's net operating revenue be reduced, but the percentage of return on capital will be likewise affected. Previous to June 30th, 1918, applicants business demonstrated the ability to earn a substantial return, as disclosed by applicant's own figures herein, and its return for the year ending June 30th, 1918, was sufficiently large to indicate that applicant was able to meet all rising costs that occurred previous to this date.

Applicant's rates for electricity in its Stockton Division, as have been earlier

pointed out, are lower than the rates charged by similar utilities operating in similar territory in California. Applicant's financial structure rests largely upon its ability to continue such earnings. I do not, however, believe that under present emergency conditions applicant's former net earnings should necessarily be re-established. It should also carry some of the burden resulting from present abnormal economic conditions.

During the two years preceding June 30th, 1918, applicant earned a net operating revenue which averaged slightly over 11 per cent of its capital for depreciation and return. This represents approximately 8.75 per cent for return after the deduction of 2.25 per cent for depreciation. I am of the opinion that no undue burden will result to applicant's consumers if applicant's net operating revenue be so increased as to produce, under conditions as estimated for the year ending June 30th, 1919, a net income of 10.25 per cent for return and depreciation on applicant's own figures of capital. To thus replenish applicant's earnings will require an increase in the rates for electricity in the Stockton Division, which I believe can be most satisfactorily met in

the form of surcharges to existing rates. I recommend the following surcharges to be added to the charges for electricity fixed by applicant's filed schedules and contracts to meet the present emergency situation:-

For Energy sold for Domestic, Commercial and Municipal Metered Lighting Service, other than Street Lighting,	5 mills per k.w.h.
For Flat Rate Lighting Service, other than Street Lighting,	5% of monthly bill.
For Energy sold for Power Service,	1 mill per k.w.h.
For Energy sold for Electric Railway Service and to other Electric Utilities for Resale	1/2 mill per k.w.h.

The effect of these proposed surcharges on applicant's revenue for the year ending June 30th, 1919, is as follows:-

	<u>Estimated Sales K.W.Hrs.</u>	<u>Revenue From Existing Rates</u>	<u>Proposed Sur- charge</u>	<u>Annual Increase in Revenue</u>
Commercial Flat Rate Lighting	179 000	\$ 9 083	5%	\$ 454
Commercial Light- ing Metered	6 745 000	330 648	5 Mills	33 725
Commercial Power	30 605 860	370 984	1 Mill	30 606
Agricultural Power	4 638 000	119 965	1 Mill	4 638
Railway Power	6 460 000	60 387	$\frac{1}{2}$ Mill	3 230
Municipal Street Lighting	1 185 000	50 544		
Company Use	1 485 000			
Total	51 297 860	\$941 611		\$72 653

The surcharges herein set forth will result in a net operating revenue slightly in excess of 10.25 per cent of capital when applied on a full year's business. The figures submitted by applicant are conservative as regards estimated expenses, and liberal in its estimates of probable sales and revenue. Further increases in wages and in the cost of materials will undoubtedly occur during the period considered, for which no allowance has been made. Applicant will also be required to pay additional taxes on the increased revenues resulting from the above surcharges. Under the present emergency conditions and from the evidence presented in this case, I believe that the surcharges set

forth above should be granted and consideration given at some later date as to whether a modification of these surcharges is necessary.

I desire to point out that applicant's rates, when modified by the surcharges herein proposed, will still be lower in nearly all respects than the corresponding rates of other utilities serving in this section of the State. Notwithstanding the low rates charged its consumers, applicant has succeeded in rendering a high standard of service, has successfully maintained its properties and has kept pace with the growth of the territory it serves.

I submit the following form of Order:

ORDER

Western States Gas and Electric Company having applied to the Railroad Commission of the State of California for an order increasing electric rates in its Stockton Division, a hearing having been held, the matter submitted and now ready for decision,

I find as a fact that the charges for electricity of Western States Gas and Electric Company in its Stockton Division, as set forth in the schedules of rates and contracts on file with the Railroad Commission of the State of California, are not fair or reasonable rates under present emergency conditions in that they do not provide applicant with a return commensurate with the existing cost of supplying electricity, and in so far as such charges differ from the charges for electricity hereinafter established, which charges are found to be fair and reasonable charges under existing conditions.

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

IT IS HEREBY ORDERED that Western States Gas and Electric Company be and is hereby authorized to charge and collect for electricity in its Stockton Division, in addition to the charges fixed by its rate schedules and contracts on file with the Railroad Commission of the State of California, the following surcharges; to-wit:-

For Energy sold for Domestic, Commercial and Municipal Metered Lighting Service, other than Street Lighting,	5 mills per k.w.h.
For Flat Rate Lighting Service, other than Street Lighting,	5% of monthly bill.
For Energy sold for Power Service,	1 mill per k.w.h.
For Energy sold for Electric Railway Service and to other Electric Utilities for Resale	1/2 mill per k.w.h.

Which surcharges shall apply on all regular meter readings taken on and after the 10th day of November, 1918.

Provided Western States Gas and Electric Company shall, within ten days of the date of this order, file with the Railroad Commission of the State of California, an amended schedule of rates which shall set forth the surcharges herein authorized, and further provided that Western States Gas and Electric Company shall designate separately on bills rendered its consumers for electricity in the Stockton Division the surcharges herein authorized.

IT IS FURTHER ORDERED that Western States Gas and Electric Company shall file with

the Railroad Commission on or before the 20th day of each month a statement of its revenues, operating expenses and additions to capital for the preceding month and such other information as the Railroad 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 *14th*
day of ~~October~~ *November*, 1918.

Edwin O. Edgerton
H. D. Loveland
Frank R. Wilson

COMMISSIONERS