

Decision No. 6095

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF  
THE STATE OF CALIFORNIA

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In the matter of the application of :  
SAN JOAQUIN LIGHT AND POWER CORPORATION : Application No. 4064  
for authority to increase electric rates.:

Short & Sutherland and Murray Bourne for applicant.

B. D. Marx Greene for the cities and towns of  
Bakersfield, Coalinga, Fowler, Fresno, Kings-  
burg, Madera, Maricopa, Sanger and Selma and  
counties of Fresno, Kern and Madera.

J. A. Hinman for Kern County Farm Bureau.

DEVLIN, Commissioner

O P I N I O N

San Joaquin Light and Power Corporation asks authority to increase its base rates for electric energy by an amount of twenty (20) per cent, or such other amount as the Commission may deem fair and reasonable.

The Commission on May 28, 1918, after a careful investigation of evidence introduced in application of the San Joaquin Light and Power Corporation (Application No. 3531), issued its decision No. 5449 authorizing San Joaquin Light and Power Corporation to charge and collect a surcharge of

10% in addition to its regular rates. This increase was to cover the estimated increased cost of operation during the year of 1918, as estimated from the evidence presented so as to allow applicant an 8% return on its investment for that year.

San Joaquin Light and Power Corporation alleges in this application that, due to unforeseen causes, at the time of the previous application the costs of operation have materially increased over the previous estimates, and though the revenue increase has been more than estimated, applicant will have failed on December 31, 1918, to have earned 8% on its investment for the year 1918 by approximately \$189,000. This amounts to 1.44% below an 8% return. The main causes for the failure to earn the return of 8%, as set forth in the application, are:

- 1- A material increase in demands for power by agricultural and industrial uses, requiring the generation of approximately 20,000,000 K.W.H. additional by steam.
- 2- A shortage of hydro-electric output of approximately 7,500,000 kilowatt hours below the previous estimate.
- 3- An unavoidable delay in construction of gas line to the Bakersfield steam plant, and the resultant increase in cost due to greater purchase of oil.

Applicant alleges that, as a result of these causes, and the resultant failure to earn a full 8% on its property, it is not able to meet its trust deed requirements as to issuance of bonds, and cannot, therefore obtain the necessary monies to make extensions to

its system and construct new hydro-electric developments to meet the increasing demands on its system.

The exhibits in this application which are based in general upon eight months' records of actual operations and estimates for the last four months, show that the rate base, revenue and expense for the year 1918 are estimated as follows:

Rate base as of June 30, 1918	\$13 098 243.00
Gross Revenue	\$ 2 351 500.00
Expenses other than Dep'n	1 293 526.40
Net Operation Revenue	\$ 1 057 973.60
Depreciation	199 159.02
Net	\$ 858 814.58
Earnings less than 8%	\$ 189 044.86

The operating expenses, other than the cost of fuel and purchased power, have been practically as estimated. Due to shortage of water not previously estimated, and unavoidable delay in the completion of applicant's gas pipe line by the time estimated, and after completion failure to obtain the gas it has estimated, and to the unprecedented increased use of power, the cost of energy purchased and of oil increased approximately \$186,523. The gross revenue of applicant will closely approximate the Commission's estimate, but due to increased use of electric energy by agricultural consumers in excess of that of previous years, the average rate per kilowatt hour received was materially reduced.

Applicant's estimate of operation for the twelve months ending June 30, 1919, show that on the

basis of a normal year for 1919 applicant's earnings for the year would be as follows, assuming a continuance of the present 10% surcharge:

Rate Base of December 31, 1918	\$13 868 541.85
Gross Earnings	\$ 2 636 060.53
Expense other than Dep'n	1 263 332.34
Net Operation Revenue	\$ 1 372 728.19
Depreciation	213 917.12
Net	\$ 1 158 811.07
Return in excess of 8%	\$ 49 327.73

Some time has elapsed since the submission of this matter and from records of operation up to and including November 30, 1918, with estimate for December, it appears that in all probability applicant's electric earnings for 1918 will be \$195,000 less than an 8% return. The net return, after deducting depreciation, will be approximately 6.50% on the rate base.

It appears at this time that, had applicant's rates been increased by the previous decision so that by December 31, 1918, eight per cent return would have been earned for the year 1918, a surcharge of 25% on the consumers' bills would have been required for the last 7 months. A fifteen per cent surcharge applied for twelve months would, however, have resulted in obtaining 8% return for 1918, and would have been less burdensome on consumers.

In decision No. 5449 in the previous Application No. 3531, where applicant was granted by the Commission an increase of 10%, after discussing the need of maintaining applicant in a strong financial

condition during the national emergency, the presiding commissioner states:

"I see no reason for reducing the return of 8 per cent which this Commission allowed in Decision No. 3241, even though operating expenses will very largely increase this year."

He thereafter recommends a 10% surcharge be applied to all bills. The resultant estimated revenue should, it was believed, have returned applicant sufficient to net an 8% return by December 31, 1918. It is further stated that:

"If the estimates herein made prove to be in all respects correct, the "surcharge" will meet this year's obligations by the end of 1918. If the revenues should prove to be greater or the cost of service less than herein estimated, the surcharge can be remitted prior to December 31, 1918, while if the contrary should prove to be true, it can be permitted to remain in effect for such time as may be necessary subsequent to December 31, 1918. In this way, a flexible system will be provided by which, whenever 1918's obligations have been met, the surcharge will be automatically terminated."

It appears, from the evidence now before the Commission, that due to unforeseen conditions, the surcharge granted was not sufficient to give the necessary return, and that applicant will, in all probability, not recoup for 1918 the deficit below an 8% return before the last of 1919, or first of 1920, unless the surcharge is further increased.

Applicant's hydro-electric power plants were short of an average output by approximately 30,000,000

kilowatt hours in 1918, and at least 55,000,000 kilowatt hours short of what would be produced during a normal year. At the price of oil in effect in 1918, this represents a cost above the average of approximately \$250,000 per annum, and approximately \$400,000 more than would have occurred had 1918 been a year of normal rainfall. It is apparent to me, therefore, that with the 10% surcharge applied continuously, applicant would receive over a cycle of years on the average slightly in excess of 8% return.

Applicant is faced with the urgent necessity of further developments of hydro-electric power. Its present plants are not sufficient to meet the demands of existing consumers and those whose applicants have been already filed with the company unless at least normal water conditions prevail and only then by operation of its steam plant to full capacity. Development of hydro plants without further delay must be made in order that a serious shortage of power be averted and also that the development of the San Joaquin Valley be not interfered with due to lack of available power for agriculture and for industrial developments.

Applicant presents a plan for the development of a 15,000 k.w. plant on San Joaquin River requiring an investment of approximately \$1,750,000 to be expended in the next eighteen months. In addition to this, extension and improvements to its existing transmission and distribution system will require further expenditures of approximately \$1,250,000, or a total of \$3,000,000 during

1919, and the first part of 1920. Applicant contends that it must obtain most of this money from the sale of bonds.

Applicant's trust deed requires that its net earnings for the preceding 12 months must be twice the interest on bonds outstanding and bonds to be issued before bonds can be issued. On the basis of evidence presented, applicant will in all probability be able to issue slightly in excess of \$1,000,000 of bonds by the showing on June 30, 1919, if the present surcharge continues. With a 20% surcharge for 6 months prior to that date, it has been estimated that at least \$2,000,000 of bonds can be issued by the time the June statement is available. No bonds can be issued prior to the February showing. Applicant believes that it can sell the bonds which can be issued under the trust deed at a fair figure.

I do not consider the requirements of the trust deed as a compelling reason for an increase of rates. In this case, however, applicant has failed to earn the rate of return which this Commission in its decisions Nos. 3241 and 5449 found to be fair and reasonable. I see no reason at this time to consider a lesser return fair.

Rates should possess reasonable stability and not be subject to fluctuation from year to year with variation in cost caused by fluctuation in supply of hydro-power. In general, applicant's consumers can least afford to pay increased rates during dry years and should not be required to. It must be expected that

on wet years applicant's net return will exceed the average, and on dry years fall below the average. To make possible the ready financing through bonds by applicant within a period of a few months would require a material increase of rates at this time. The existing customers of applicant must be given consideration and not be burdened with an excessive increase for a short period of time in order that special financing might be carried out by applicant to meet new developments. New developments however are necessary and the sooner they are made the sooner will reduced rates be possible.

A surcharge of 15% on the company bills to consumers if applied for approximately 12 months will for 1919 estimated conditions result in a net return sufficient to net applicant an average of 8% return for the two years of 1918 and 1919 and also make possible the issuance by San Joaquin Light and Power Corporation of approximately \$3,000,000 of bonds by December 31, 1919. The above is based upon a normal rainfall year for 1919.

Considering both the right of existing consumers and of new consumers as well as the needs of the utility and the need of further development of power in the San Joaquin Valley it is my opinion that a surcharge of 15% is a reasonable and fair one to charge.

On the basis of 1918 conditions, such a surcharge applied for twelve months would have resulted in an increase sufficient to net applicant



8% even under the special condition of drought existing. Applied to the first six months of 1919, the additional charge should make possible the issuance of <sup>bonds in the sum of</sup> \$450,000 in excess of that under the existing surcharge.

I recommend that applicant be granted authority to charge a surcharge of 15% on all bills based on regular meter readings taken on and after February 15, 1919, and for all flat rate service rendered on and after February 1st. The Commission will keep careful account of applicant's revenues and expenses from month to month and in case the surcharge returns applicant the necessary revenue prior to January 1920 such steps as appear necessary will be taken to remove same.

I recommend that the entire surcharge of 15% herein authorized automatically terminate as set forth by the Commission in this order in January 1920 unless further ordered prior to January 15, 1920.

I submit herewith the following form of Order:

O R D E R

San Joaquin Light and Power Corporation having filed herein its petition asking authority to increase its rates charged for electric energy by making a temporary surcharge as indicated in the opinion which precedes this order, public hearings having been held, this proceeding having been submitted and being now ready for decision.

The Railroad Commission hereby finds as a fact that the existing rates for electric energy sold by the San Joaquin Light and Power Corporation together with

the surcharge now authorized are, under existing conditions, unjust and unreasonable and that the rates herein established are just and reasonable rates.

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

The Railroad Commission hereby authorizes San Joaquin Light and Power Corporation to charge and collect a temporary surcharge of fifteen (15) per cent to be added on each and every bill for electric service, based on the regular filed schedules, rates and contracts, effective for all regular meter readings taken on and after February 15, 1919 and prior to January 15, 1920 where metered service is rendered and effective for all flat rate service rendered on and after February 1, 1919 and prior to January 31, 1920 unless ordered otherwise by this Commission prior to January 15, 1920 upon the following conditions:

1- This order shall not be construed as disturbing the structure of rates established by this Commission in Decision No. 3241, to be charged by San Joaquin Light and Power Corporation; but said corporation, in addition to showing on its bills for electric energy the amount due under the rates heretofore established by this Commission in said decision, shall also show separately the surcharge herein authorized.

2- This proceeding is hereby kept open and the Railroad Commission hereby retains jurisdiction to issue a supplemental order terminating such surcharge whenever the revenues of San Joaquin Light and Power Corporation received thereunder shall be sufficient for the purpose

specified in the opinion which preceds this order, and to make such other order or orders as may seem just and proper.

The Railroad Commission hereby orders that San Joaquin Light and Power Corporation shall file with the Railroad Commission on or before the 30th day of each month, reports in such form as may be prescribed by the Commission, showing the results of its operations from electric business and such other information as the Commission may designate from time to time.

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 30<sup>th</sup> day of January, 1919.

Edwin C. Edgerton  
H. S. Loveland  
Frank D. Wilson  
H. B. Lundberg

Commissioners.