

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

In the Matter of the Application)
of COAST VALLEYS GAS AND ELECTRIC)
COMPANY, a corporation, for an) Application
Order authorizing Increase in its) No. 4218
Electric Rates.)

Chickering and Gregory, by Warren Gregory
and W. C. Fox and A. C. Van Fleet, for
Applicant.

J. H. Andresen, City Attorney, for City
of Salinas.

H. G. Jorgensen, City Attorney, for City
of Pacific Grove.

F. A. Treat, City Attorney, for City of
Monterey.

H. R. Osborne, City Attorney, for City
of King City.

BY THE COMMISSION.

O P I N I O N

In this proceeding, Coast Valleys Gas and Elec-
tric Company, hereinafter referred to as applicant, asks
that the Commission investigate its rates and charges

for electricity and establish such increased rates as the Commission may deem just and reasonable to offset the increases in operating expenses to which applicant's electric business has been subjected since its rates were established in Decision No. 4847, dated November 16th, 1917.

A hearing was held at Salinas before Examiner Westover on January 21st, 1919, at which time evidence was submitted by applicant and by certain protestants, and at which time applicant submitted the matter to the Commission. The City of Salinas reserved its submission but subsequently did so by stipulation. The matter is now ready for decision.

The Coast Valleys Gas and Electric Company is engaged in supplying electricity as a public utility in the Cities of Salinas, Monterey, Pacific Grove, King City and in the small communities and rural sections in Monterey County. It is also engaged in the manufacture and distribution of gas and in the distribution of water in several of the above mentioned cities. We are concerned herein only with applicant's electric operations.

The greater part of the energy distributed by applicant is purchased from the Sierra and San Francisco Power Company and a small portion generated in its own steam plants. In its petition Coast

Valleys Company states that in Decision No. 5867, dated October 22nd, 1918, the Commission increased the rate for electric energy purchased by it from Sierra and San Francisco Power Company in the amount of 2½ mills per kilowatt hour; that such surcharge represents a substantial increase in applicant's cost of service; that the cost of oil used at applicant's steam generating plants has also increased; that applicant's other operating expenses, including labor employed and materials used in the maintenance and operation of its electric properties, have all been subject to increase. Applicant states that its net income and the return upon its investment will thus be reduced to such an extent as to render it unable to continue to perform its proper functions and to care for its financial and other obligations.

Protestants herein, particularly the City of Salinas, object to any increases in applicant's rates at this time on the grounds that applicant's electric service is subject to frequent, long, and serious interruptions which have been a source of both annoyance and pecuniary loss to many electric consumers. The testimony introduced by protestants clearly establishes in our minds the fact that the standard of applicant's service should be substantially improved, and that its electric consumers are entitled to better service than is now and has been for some time in the past supplied by applicant.

It appears from the testimony of protestants, confirmed by applicant's witnesses, that the difficulties concerning the service in this territory are traceable to three primary causes: first, interruptions on the line of the Sierra and San Francisco Power Company which supplied applicant, second, interruptions on applicant's own transmission lines, and third, fluctuations in voltage not accompanied by interruptions.

The interruptions which have occurred on the lines of the Sierra and San Francisco Power Company supplying applicant have been due partly to the failure of the high tension insulators supporting the conductors on this line, and partly to unusual lightning disturbances occurring in the autumn of 1918. The latter are, of course, beyond the control of either applicant or the Sierra Company, and the former, as shown in the evidence herein, is due to the gradual deterioration of insulators culminating in their final rupture, which could not be anticipated and which the Sierra Company is, by means of continual replacements, making an effort to modify and remove. Applicant maintains an auxiliary steam generating plant which should be operated in such a manner as to be ready at all times to relieve interruptions from any causes. Such method of operation has not been followed in the past, and as a result, the time interval necessary to put appli-

cant's steam plants in full operation is of such duration that applicant's consumers are often without electricity for some considerable time. It also appears that applicant's steam plant at Monterey, which is the only plant of sufficient capacity to be of use from a service standpoint, is not so connected to Salinas, which is the point of delivery of energy to applicant by Sierra Company, that the re-establishment of service can be quickly effected when interruptions arise.

The second cause of interruptions, namely those occurring on applicant's own transmission system, result in part from the absence of sufficient attendance in applicant's substations, and in part from the installation of new insulators necessary when the voltage on the lines south of Salinas was raised to enlarge their capacity. Advance notice had been given of such interruptions in some instances.

The third factor, namely unsteady voltage, is due to the lack of automatic voltage regulators, which devices are generally used on all modern electric distributing systems where lighting load is supplied.

The engineers of the Gas and Electric Division of the Commission and applicant's engineers have made a very thorough inspection of Coast Valleys Electric system, and have made certain recommendations which will be discussed hereinafter.

We shall now proceed to a consideration of the factors resulting in applicant's increased operating expenses, and will then deal with the expenditures and changes in applicant's methods of operation, which in our opinion are necessary for the improvement of its service.

Applicant shows the following specific items of increase in its operating expenses if present conditions had prevailed during the year ending October 31st, 1918.

<u>Item</u>	<u>Increase for The Year</u>
Purchased Energy, 13,294,631 k.w.h. at $2\frac{1}{2}$ mills per k.w.h. aggregating	\$ 31 405.07
Labor, representing an average in- crease in wages of 10% over the preceding year amounting to	2 783.37
Fuel oil, showing an average in- crease over the preceding year of 6.95%, or in total	1 181.64
Steam plant supplies	<u>84.13</u>
Or a total of	\$ 35 453.61

There are other minor items of greater expense but as the above comprises at least 90 per cent of all direct operating expense, applicant finds no necessity for analyzing the remainder.

The effect of these increases applied to applicant's electric business for the year ending October 31st, 1919, is shown in the following table in comparison with the corresponding items for the two preceding years. In this table submitted by applicant are set forth its revenues, operating expenses, net income, capital and rate of return.

The figures of capital used for comparing the returns in three years shown in this table are based upon the findings of value by this Commission in Decision No. 4847, in which was set forth the rate base as of June 30th, 1917. To this has been added the net additions and betterments as shown by applicant's books and records to October 31st, 1918, with a reasonable allowance for additions and betterments to electric capital for the year ending October 31st, 1919. From these data have been deduced applicant's capital as of October 31st, 1917, 1918 and 1919, and the figures used herein for comparison are the averages for each year, including materials and supplies and working capital for comparison with the corresponding revenue and expense for each year set forth. The depreciation allowance included in operating expense is likewise based upon the findings in Decision No. 4847 above.

TABLE I

COAST VALLEYS GAS AND ELECTRIC COMPANY
ELECTRIC CAPITAL, REVENUE, EXPENSES AND RETURN
AS SHOWN BY APPLICANT

Year Ending October 31st,	<u>1917</u>	<u>1918</u>	Estimate for <u>1919</u>
Average Capital for the period	\$947 610	\$988 490	\$1 051 118
Gross Revenue	209 145	235 050	266 400
Operating Expenses:			
Production - Purchased Power	76 189	84 480	142 538
Fuel for Steam	5 724	16 993	14 856
Transferred Energy (to Gas and Water Operations)	*9 283	*11 400	*11 400
Operating and Maintenance	<u>5 754</u>	<u>9 326</u>	<u>9 090</u>
Total Production Expense	\$ 78 384	99 399	155 084
Transmission Expense	5 872	4 015	5 265
Distribution Expense	12 851	13 433	17 292
Commercial Expense	7 649	8 897	9 629
General & Miscellaneous Expense	10 707	12 121	12 373
Taxes	11 892	14 294	16 200
Uncollectible Bills	<u>320</u>	<u>320</u>	<u>320</u>
Sub-Total	\$127 675	152 479	216 163
Depreciation	<u>15 184</u>	<u>15 806</u>	<u>16 681</u>
Total Operating Expense	\$142 859	168 285	232 844
Net Income	\$ 66 286	66 765	33 556
Per Cent Return on Average Capital	7.00%	6.75%	3.19%

*Credit

The most important deduction from Table I above is that applicant's net income for the year ending October 31st, 1919, will be but 50 per cent of that for preceding years 1917 and 1918, which in turn results in a reduction in rate of return upon applicant's capital from 7.00 per cent to 3.19 per cent. Furthermore, after the deduction of a proper allowance for depreciation, the net income of \$33,556.00 for the year ending October 31st, 1919, is insufficient to meet the bond interest accruing on applicant's outstanding securities. That there is a real necessity from applicant's standpoint of an increase of its electric rates, is evident.

The necessity for improved service being also apparent, applicant submits a list of necessary changes with the capital expenditures and increases in operating costs to bring this about. The evidence herein indicates that the steam plant at Monterey should be overhauled; that line and transformer improvements should be made at Monterey; that the Salinas substation should be rebuilt and modern effective switching apparatus installed; and that feeder voltage regulators are necessary at Monterey and Salinas. Applicant also presents an estimate of the increased cost of operating Monterey steam plant at 10 per cent load for 20 hours per day throughout the year as an insurance against interruptions, enabling this station to pick up the load

quickly in case of trouble. Applicant, in addition, proposes to improve its attendance at Salinas substation by employing another operator, and further proposes a local general manager to have supervision over its whole system. Applicant states that the improvements it sets forth will require the expenditure of \$36,000.00 of new capital and an increase in operating expenses of \$34,300.00 per year.

We believe applicant has overestimated the extent to which its steam plant should be run, and there appears no more need for standby operation than would be provided by half as extensive use of this plant, as is shown by applicant. In other words, continuity of service will be sufficiently insured, in our judgment, if applicant's Monterey plant is operated at 10 per cent load for 10 hours per day on the average throughout the year. This does not mean, of course, that the plant should operate at a uniform load for this period of time for every day in the year, for at times there will be a necessity for more than this, and at other times during good weather conditions there will be little or no need for any more than a floating on the line. On the whole, however, it appears reasonable that 10 per cent operation for 10 hours per day on the average will result in a very substantial improvement in the service rendered. Applicant shows

that its energy for the year ending October 31st, 1919,
is to be obtained approximately as follows:

To be purchased from Sierra Company,	15 283 000 k.w.h.
To be generated by steam	<u>750 000 k.w.h.</u>
Total	16 033 000 k.w.h.

The production by steam of 750,000 kilowatt hours appears from the past years' operations to be a sufficient output to provide for both interruptions on the Sierra line and for standby service to the extent proposed above. The expense incidental to one-half of this amount, or 375,000 kilowatt hours, would be borne by the Sierra Company during periods of interruptions in accordance with the terms of the existing inter-company contract. The other half, or another 375,000 kilowatt hours, is slightly more than average 10 hours operation at 10 per cent rated load on the Monterey steam plant. Evidently applicant has in its estimate of cost for the year ending October 31st, 1919, already provided sufficient expense to cover all of the operation of its steam plant for both insurance of service and for interruptions, and there is no necessity, as it has done, for adding any further expense of oil, labor or supplies than is included in its figures set forth in Table I preceding.

It is not essential in our judgment for a local general manager to be located in Salinas and to have supervision over the whole system. That applicant should propose this would seem to indicate that sufficient responsibility and initiative are not vested in its local managers and agents. Applicant's general management is certainly capable of handling its affairs and an additional local manager would, in our judgment, be an unnecessary duplication of activities. Whatever applicant intends to accomplish by this proposal can, we believe, be met by enlarging the responsibilities and duties of its local representatives and by some change in the Company's methods that will keep its head office in closer touch with its business in Monterey County.

With the above exceptions, we concur in applicant's suggestions for improved service and propose to allow herein a return on necessary additional capital and sufficient additional operating expense, to be absorbed in higher rates by this utility so that there will be funds for applicant to fully carry out its obligation to its consumers.

An analysis of the remaining figures of additional capital and expense necessary for these changes indicates that the amount shown by applicant for capital

expenditures is not entirely a new outlay. Many of the improvements which it proposes in its steam plant are largely items of deferred maintenance, and many of the other changes involving outlay of capital will result in the retirement of equipment at present used, so that the actual increase in capital will be less than shown herein.

In reviewing the figures, we are of the opinion that applicant will be required to spend in the neighborhood of \$25,000.00 net outlay in new capital; that deferred maintenance should be included herein, not in full, but prorated over a short period in the future. The total of deferred maintenance now necessary is about \$3,900.00, and if this be prorated over a period of 3 years, the annual expense for additional maintenance should be about \$1,300.00. In addition, further increase in operating expense of \$1,800.00 for substation attendance should be allowed.

We propose to add to the rate base shown in Table I the amount of \$25,000.00 to cover all the necessary capital expenditures for service improvement and to add to the operating expense there shown the amount of \$3,100.00 which is made up of \$1,300.00 additional maintenance and \$1,800.00 additional operating expense. We have, on the basis of the steam plant operating program, suggested above, slightly increased applicant's

original figures of production cost. With the changes of capital and expense noted above, we submit Table II herewith as showing capital, revenue and expense of applicant's Electric Department for the year ending October 31st, 1919, under existing rates and under the rates hereinafter established. The items in Table II are, in general, those submitted by applicant in Table I with the changes indicated above to provide for service improvements. With the additional capital outlay and expense shown in Table II, the net return to applicant under existing rates will be but 2.46 per cent of the increased capital. The net total additional cost of the improvements proposed is slightly in excess of \$7,000.00 per annum, which in our judgment is well worth paying for by this utility's consumers. We find that the expenses set forth in Table II for the period designated are reasonable in respect to the several items shown, and in respect to the total.

TABLE II

COAST VALLEYS GAS AND ELECTRIC COMPANY

ELECTRIC DEPARTMENT

YEAR ENDING OCTOBER 31ST, 1919

WITH SERVICE IMPROVEMENTS

Capital:

As shown in Table I above	\$1 051 118	
Additional for Service Improve- ments	<u>25 000</u>	
Total Capital		\$1 076 118

	<u>Under Existing Rates</u>	<u>Under Rates Hereinafter Established</u>
<u>Revenue:</u>	\$ 266 400	\$ 319 730
<u>Expense:</u>		
<u>Production:</u>		
Operation and Maintenance	9 089	9 089
Fuel for Steam	14 856	14 856
Purchased Power	146 731	146 731
Less Power used by Other Depts.	* <u>-12 000</u>	* <u>-14 400</u>
Total Production	158 676	156 276
Transmission	5 265	5 265
Distribution	17 292	17 292
Commercial	9 629	9 629
General and Miscellaneous	12 373	12 373
Taxes	16 200	19 443
Uncollectible Bills	320	320
Depreciation	17 099	17 099
Additional for Service Impvmts.:		
Maintenance, 1 300		
Operation <u>1 800</u>	<u>3 100</u>	<u>3 100</u>
Total Expense	239 954	240 797
Net Income for Return	26 446	78 933
Rate of Return on Capital of \$1,076,118.00	2.46%	7.33%

* Credit.

Based on the foregoing consideration of increased expenses for both operation and improvement of service, we deem it proper to increase applicant's rates and charges for electricity in sufficient amount to provide^{it} under the conditions shown in Table II, with a return approximating that earned during the years 1917 and 1918. To bring applicant's net return for the year ending October 31st, 1919 to its former basis will require an increase in its gross revenues of \$53,330.00, which is an average raise of 20 per cent on present rates. In apportioning this total amount of increased revenue to the several classes of business, it appears proper to assess applicant's lighting consumers with slightly more than its power consumers, for the obvious reason that the service improvement outlined above and which is to be supplied at an additional cost, results largely to the advantage of this utility's lighting consumers. We therefore propose the following surcharges to yield the necessary additional revenue:

For energy sold for lighting purposes, except for public outdoor lighting,	1 $\frac{1}{2}$ ¢ per k.w.h.
For energy sold for heating and cooking,	$\frac{1}{2}$ ¢ per k.w.h.
For energy sold for power purposes, including railway power,	20% of monthly bills.
For energy sold for public outdoor lighting purposes,	15% of monthly bills.

These proposed increases when applied to the estimated sales of energy for the year ending October 31st, 1919, are estimated to produce the required \$53,330.00 additional revenue. We assume that applicant will charge its Gas and Water Departments for energy used at a rate 20 per cent in excess of the present rate, and have therefore made a corresponding modification in its credit to production expense for energy so transferred. The second column of Table II preceding, shows the revenue with the full amount of increase from the proposed surcharges that will accrue to applicant and the expenses of operation under these conditions. The net income after the deduction of all reasonable and proper operating expenses shown in Table II will be \$78,933.00, which is 7.33 per cent of applicant's capital, and which return is slightly in excess of that heretofore earned up to the present time. If any curtailment of use of electricity shall arise as a result of these rate increases, and this is probable to some degree, applicant will not obtain the full amount of the proposed increase nor the full return shown above.

We believe that applicant's electric service, improved as outlined herein, will, under present conditions, be worth the additional cost to consumers, and when in the enjoyment of the better returns applicant's financial condition will be such that it can adequately meet the constantly growing needs of this territory.

On the other hand, the increases proposed will result in rates that are as high as any utility of the nature and extent of applicant herein can expect to charge. Coast Valleys Company is yet in a development stage, and the growth of the territory in which it operates is, to some degree, dependent on the use of electric power for irrigation. The rates herein established are, in our opinion, such as to provide adequate service and permit an unrestricted development of the territory served, and both the community and the utility should gain thereby.

It is hardly necessary to state that we believe applicant's proposal for service improvements has been made in good faith, and in allowing herein a full return on such capital expenditures and such increased operating expenses as are necessary for the carrying out of these improvements, we shall expect applicant to proceed immediately and press to completion all of the improvements herein provided for, to operate its steam plant for standby service and to make the other necessary changes in its operating methods so as to accomplish this in the fullest sense. The order herein will authorize applicant to charge and collect immediately the necessary rate increases, and its obligation to its consumers will demand that it perform with due diligence all of its share of the work for which its consumers will then be paying. This

Commission is vitally concerned in this matter and desires to obtain the best results commensurate with the interests of both this utility and its consumers, and in ordering the consumers to carry the burden of additional rates, we shall expect that this utility will proceed at once and carry out its end of the bargain. Unless applicant herein shall so do, this Commission will give immediate consideration to a modification of the following order:

O R D E R

Coast Valleys Gas and Electric Company having applied to the Railroad Commission for authority to increase its rates and charges for electricity, a public hearing having been held, the matter submitted and now ready for decision,

The Railroad Commission of the State of California hereby finds as a fact that the rates and charges for electricity of Coast Valleys Gas and Electric Company, as set forth in its schedules of rates and contracts on file with the Railroad Commission, are, under present conditions, insufficient to provide satisfactory

electric service and inadequate in that they do not yield a sufficient return; and in so far as they differ from the rates herein established are not just, fair or reasonable rates. We further find as a fact that the electric rates herein established are, under present conditions just and reasonable.

Based 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 Coast Valleys Gas and Electric Company be and is hereby authorized to charge and collect for electric energy, in addition to the rates and charges set forth in its schedules of rates and contracts on file with the Railroad Commission, the following surcharges, to-wit.:

For energy sold for lighting purposes, except for public outdoor lighting,	1½¢ per k.w.h.
For energy sold for heating and cooking,	¾¢ per k.w.h.
For energy sold for power purposes, including railway power,	20% of monthly bills.
For energy sold for public outdoor lighting purposes,	15% of monthly bills.

which surcharges shall be effective on all regular meter readings taken on and after the 20th day of March 1919.

Provided Coast Valleys Gas and Electric Company shall within 10 days from 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 Coast Valleys Gas and Electric Company shall designate on bills for electricity rendered its consumers the surcharges herein authorized.

IT IS HEREBY FURTHER ORDERED Coast Valleys Gas and Electric Company shall file with the Railroad Commission on or before the 20th day of each month a statement of its electric revenues, operating expenses and capital expenditures for the preceding month and 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 12th day of March 1919.

Edwin A. Egan
H. S. Hayward
Frank R. DeVin

COMMISSIONERS