

BEFORE THE RAILROAD COMMISSION OF THE
STATE OF CALIFORNIA.

ORIGINAL

In the Matter of the Application)
of the WESTERN STATES GAS AND)
ELECTRIC COMPANY for a Revision) Application
of its Schedules of Gas Rates in) No. 3605
and about the City of Stockton.)

In the Matter of the Application)
of the WESTERN STATES GAS AND)
ELECTRIC COMPANY for an Order in-) Application
creasing its Electric Rates in) No. 3962
its Stockton Division.)

Chickering & Gregory, by Allen Chickering
For Applicant.
Daniel V. Marceau for the City of Stockton
and the City of Placerville.
Levinsky & Levinsky for the Stockton Elec-
tric Railroad Company.

DEVLIN, Commissioner.

OPINION ON SUPPLEMENTAL PETITIONS

In the above entitled proceedings, Western
States Gas and Electric Company, hereinafter referred
to as applicant, asks the Commission for a revision of

its gas and electric rates as established in Decisions No. 5485 in Application No. 3605, and No. 5889 in Application No. 3962, respectively.

Applicant is engaged in the generation, transmission and distribution of electricity in certain sections of central California, and in the production and distribution of gas in and about the City of Stockton, all included in its Stockton Division.

In Decision No. 5485, dated June 18th, 1918, applicant herein was authorized to add to its gas rates a surcharge of 10 cents per thousand cubic feet, based upon conditions which could be reasonably anticipated to continue in effect in its gas business. In the supplemental petition herein, applicant alleges that it has been required to bear further increases in the cost of oil used in gas manufacture, and that the increased costs of labor and other items reflected in its operating expenses have since continued so that its present rates are now inadequate to provide it with a reasonable income or with a commensurate return.

In Decision No. 5889, dated November 4th, 1918, applicant herein was authorized to charge and collect certain surcharges in addition to the electric rates fixed by its filed schedules and contracts. In the supplemental petition herein, applicant alleges that

the surcharges authorized in Decision No. 5889 are insufficient to provide it with an adequate income and asks for further relief.

These two proceedings were consolidated for hearing, and evidence was submitted before the Commission in San Francisco on December 20th, 1918. The matters were then submitted and are now ready for decision. I shall consider separately applicant's gas and electric departments.

In the opinion in Decision No. 5485, Application No. 3605, we have set forth at some length the conditions surrounding applicant's gas business, and the decision at that time took into account all of the increased costs and expenses of operation to which applicant was subjected. Prior to October 1st, 1918, applicant paid for oil used in gas manufacture \$1.605 per barrel, at which time a one year contract for oil at a price of \$1.75 per barrel was entered into. Applicant shows higher wages and salaries paid to its employees at the present time and which have been necessary since the date of the preceding order.

Applicant presents the following table of gas revenues and expenses for the year 1919. This is based upon serving approximately 9,684 consumers with 532,735 M. cubic feet of gas. To supply this quantity of gas it would be necessary to manufac-

ture from oil 204,484 M. cubic feet, and to utilize 181,851 M. cubic feet of natural gas from applicant's wells. The artificial gas to be produced will consume 41,035 barrels of oil at a cost of \$1.75 per barrel. The estimated revenue and expense incidental to this business, according to applicant, is as follows:

TABIE I

Western States Gas and Electric Company

Stockton Division - Gas Department

Revenue and Expense 1919

Gas Revenue (including present 10-cent surcharge)		\$ 348 115.00
<u>Operating Expenses:</u>		
Oil for gas	\$ 71 910.00	
Other production	43 926.00	
Distribution	21 313.00	
Commercial	12 092.00	
General and Miscellaneous	37 186.00	
Taxes	30 641.00	
Uncollectible bills	<u>1 740.00</u>	
Total Operating Expense		<u>218 708.00</u>
Net Income for Depreciation and Return		\$ 129 407.00

I believe applicant's figures of revenue and operating expenses are reasonable with this exception, that applicant's estimate of taxes, including as it does more than the normal pre-war income and other Federal taxes, is in excess of the proper amount to be included in operating expenses which applicant's rate payers should be required to pay.

Applicant requests the Commission to give further consideration to the question of allowance in rates of the extraordinary tax imposed as Federal war taxes. It is vigorously urged by applicant that the rule previously declared by this Commission in Decision 5889 in Application No. 3962, in which the Western States Gas and Electric Company was the applicant, should now be reconsidered and reversed. Counsel for applicant supplemented his oral argument on this point by statements and discussion of the question by two gentlemen very eminent in matters of utilities' regulation.

I am unconvinced, however, that the rule previously declared by this Commission is not the proper one, and it appears to me that the objections urged thereto by counsel for the company and through the medium of the statements referred to are arguments which might well have been urged before the Federal law making power as reasons for not imposing the tax rather than before this Commission after the enactment of the law.

It appears to me, however, that the immediate concern of the Commission in this regard is not whether

Congress acted wisely or unwisely in imposing the tax, but the inquiry is limited to what the law does declare. Unquestionably Congress has the right to impose the tax in the manner expressed in the law, and obviously it is not within the province of this Commission in fixing rates to defeat such declaration and purpose of the law itself. I am, therefore, of the opinion that the rule previously declared in Decision No. 5889 should be reaffirmed herein, and for that reason I have reduced applicant's item of taxes from \$30,641.00 to \$23,846.00. This modification will reduce applicant's figure of operating expense to \$211,913.00, and will increase the net income available for depreciation and return to \$136,202.00. This latter figure represents an annual rate of 7.01 per cent upon applicant's estimated capital of \$1,944,023.00 for depreciation and return.

Applicant has submitted certain figures purporting to show the capital invested in its gas properties. A careful examination of the appraisal supporting these figures clearly indicated that the unit costs used therein are high and that considerable property has been included which can not at the present time be classed as operative.

The engineers of the Railroad Commission report from an examination of these figures, that an

appraisal based upon estimated historical reproduction cost of the plant and properties now used and useful in applicant's gas business, would show a result substantially less than set forth in applicant's exhibit, but that applicant's figures could not in any event be reduced by more than \$300,000.00. It would be manifestly unfair to both applicant and the public to use any figures other than those obtained from a careful inventory and appraisal of the property, but as will be shown later, applicant will not earn in excess of a reasonable return upon its submitted valuation reduced by as much as \$300,000.00. Therefore, in the absence of any exact appraisal of applicant's capital, I shall use the figures submitted by applicant only for the purpose of comparing its net income and return for the last four years.

The following table shows for the years ending December 31st, 1915, 1916, 1917, and for the year ending October 31st, 1918, gas revenue, operating expenses and net income of applicant's gas business, and also the average capital for each year as shown by applicant, together with the ratio of net earnings to these figures of capital. In this table, the gas revenue for the year ending October 31st, 1918, includes the surcharge of 10 cents per thousand cubic feet authorized in Decision No. 5485, which was in effect for the last five months of this period.

TABLE II.

Western States Gas and Electric Company

Stockton Division

Gas Earnings

	<u>Gross Revenue</u>	<u>Operating Expenses</u>	<u>Net Income for Depre- ciation & Return</u>	<u>Average Capital Shown by Applicant</u>	<u>Ratio of Net Income to Capital</u>	<u>Average Cost of Oil per Barrel</u>
Dec. 31st, 1915	\$209 239	\$ 91 822	\$117 417	\$1 470 700	7.98%	\$0.735
Dec. 31st, 1916	227 575	103 571	124 004	1 588 769	7.81%	0.914
Dec. 31st, 1917	265 190	134 401	130 789	1 697 597	7.70%	1.208
Oct. 31st, 1918,* including Holt Mfg. Co.	328 163	196 259	131 904	1 812 182	7.28%	1.547
Oct. 31st, 1918,* excluding Holt Mfg. Co.	291 885	163 703	128 182	1 812 182	7.07%	1.547

* Revenue includes Surcharge of 10¢ per M. cu. ft. authorized in Decision No. 5485 in effect for last 5 months of this period.

It will be seen from the above table that prior to January 1st, 1918, applicant's net revenue was between 7.70 per cent and 7.98 per cent of its own

figures of capital, and that for the year ending October 31st, 1918, its returns have been 7.07 per cent of its capital for that year, if the abnormal use of gas in war industries be excluded, and 7.28 per cent of capital if the revenue and expenses of such abnormal use be included.

It has been shown above that if the present gas rates and surcharges be continued throughout the year 1919, the net income for the year amounting to \$136,202.00 is but 7.01 per cent of applicant's estimated capital of \$1,944,023.00 for the year. It would thus appear that applicant is entitled to some further additional income in order to offset the increased cost of oil and labor to re-establish the earnings which it enjoyed in the past. It must be considered that the net return after deducting a fair allowance for depreciation would be but slightly in excess of 5 per cent. I believe it is proper to allow applicant sufficient increase in gas rates at this time to enable it to earn 7.80 per cent of its own figure of capital for depreciation and return. This is an average of the returns accruing to applicant prior to January 1st, 1918. This will necessitate a further raise in applicant's gas rates of 5 cents per thousand cubic feet, and will increase applicant's revenue for the year 1919 from \$348,115.00 to \$364,752.00. Making due allowance

for the increase in taxes properly chargeable to operation, which will follow, applicant's net income for depreciation and return will then be increased to \$151,615.00, which is 7.80 per cent of \$1,944,023.00, applicant's reported average capital for 1919.

In order to be satisfied that this proposed increase in gas rates will not produce too great a return to applicant, I submit that if applicant's figures of capital are as much as \$300,000.00 in excess of a reasonable rate base, that the above net income of \$151,615.00 from the proposed rate increase will yield a return of 9.22 per cent for depreciation and return upon the reduced figure of \$1,640,000.00 for capital. In reducing applicant's figure of capital to this extent, I believe the lesser amount can be safely considered as a minimum estimate of applicant's gas capital. A reasonable annual allowance for depreciation upon applicant's property would be at least 2 per cent, so that the proposed increased rates will return to applicant 7.22 per cent upon \$1,640,000.00, which, so far as I can determine, is the minimum rate base to be used in connection with applicant's gas properties. It is sufficient to note that a net return of 7.22 per cent is in no sense excessive or unreasonable.

The increases authorized in Decision No. 5485 took the form of a surcharge, which implies a temporary

adjustment of rates. I believe that the conditions under which applicant is now operating, as regards the costs of labor and material entering into its business, are of a sufficiently permanent character to warrant a permanent modification of its rates for gas, and I deem it proper at this time to remove the surcharge authorized in Decision No. 5485 and to permit applicant to add to its former gas rates a permanent increase of 15 cents per thousand cubic feet and to increase its minimum monthly charge from 50 cents to 75 cents per meter. The rates set forth in the order herein will be of such form as to effect these changes. It is understood, of course, that the term "permanent" is used only to distinguish from the present surcharge form of rate, and does not imply that the gas rates herein established can not be again adjusted at some future time by this Commission.

I shall now turn to applicant's electric operations. In Decision No. 5889, Application No. 3962, this Commission based its findings and authorized certain electric rate increases to applicant entirely upon the showing which was made at that time. It now appears that applicant was somewhat optimistic in its estimate of electric revenue for the year ending June 30th, 1919, and at the same time had placed much weight upon the probable growth of its business. Applicant's original estimate of its revenues and expenses for the year ending June 30th, 1919, were prepared prior to August 1918. The results of applicant's electric operations from July 1st, 1918, to November 30th, 1918, clearly indicate that its previous

estimate of sales and revenue were excessive. Applicant now shows that for the year ending June 30th, 1919, its sales of electric energy will aggregate 48,349,500 kilowatt hours, which is 2,948,360 kilowatt hours less than heretofore submitted, and that its revenue corresponding, will be \$888,723.00 for the year, instead of \$944,181.00, previously estimated, both figures exclusive of surcharge. This reduction in sales will entail a corresponding reduction in the amount of power purchased by applicant from the several electric utilities supplying it, which will likewise reduce its operating expense. In all other respects the expenses set forth in Decision No. 5889 for this period remain unchanged.

The following table shows the revenue and operating expenses of applicant's electric department as used in Decision No. 5889, and as revised herein, taking into account the changes in revenue and expenses set forth above. In this table the additional revenue to be obtained from the surcharges already in effect is included.

TABLE III.

Western States Gas and Electric Company

Stockton Division

Electric Earnings and Expenses

	<u>Used in Dec. 5889</u>	<u>As Revised Herein</u>
<u>Revenue</u>		
From Rate Schedules	\$ 944 181	\$ 888 723
From Surcharges author- ized in Dec. 5889	<u>68 925</u>	<u>64 683</u>
Total Revenue	1 013 106	953 406
<u>Operating Expenses:</u>		
Production	347 988	326 739
Transmission	25 679	25 679
Distribution	46 850	46 850
Commercial	24 518	24 518
General & Miscellaneous & Insurance	99 851	99 851
Taxes	67 220	63 258
Uncollectible Accounts	<u>5 066</u>	<u>4 767</u>
Total Expenses	617 172	591 662
Net for Depreciation and Return	395 934	361 744

It now appears that for the year ending June 30th, 1919, applicant's electric revenue, based upon existing contracts and rate schedules as modified by the surcharges in Decision No. 5889, will produce a net income available for depreciation and return of \$361,744.00 after the deduction of all proper operating expenses, including that portion of normal pre-war income and other Federal taxes assessable against its consumers.

In the previous decision, No. 5889, in this same matter, we have set forth at some length that, based upon past years' operations, applicant's electric business is entitled to earn, and can earn without any undue burden to its consumers, a net income aggregating 10.25 per cent of its own figures of capital for depreciation and return. This condition is there reviewed at some length, and I see no reason at this time for departing from this standard. On the basis of the valuation previously submitted, applicant's average electric capital for the period herein considered amounts to \$3,760,000.00, and a net income of 10.25 per cent of this for depreciation and return would call for \$385,400.00, after the deduction of all operating expenses and normal taxes. The rates and surcharges now in effect, after the deduction of all operating expenses, produce a net of \$361,744.00, and in order to preserve the past ratio of earnings to capital, which is

not unreasonable or excessive, I am of the opinion that applicant's rates should be subject to some slight adjustment upward. This can be most easily accomplished, without disturbing existing rate structures, by changes in some of the surcharges heretofore authorized.

Decision No. 5889 authorized the following surcharges:

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	$\frac{1}{2}$ mill per k.w.h.

I deem it proper at this time to make the following changes in these surcharges:

To increase the surcharge on flat rate commercial lighting from 5% to 10% of the monthly bill.

To increase the surcharge for energy sold for power service from 1 mill per k.w.h. to $1\frac{1}{2}$ mills per k.w.h.

To increase the surcharge on railway power and for energy sold other utilities for resale, from $\frac{1}{2}$ mill per k.w.h. to 1 mill per k.w.h.

To increase municipal street lighting rates by 10% of the monthly bill, not heretofore affected.

In its original petition herein, applicant specifically requested that its rates for municipal street lighting be exempted from any increase in rates, and, in our judgment, it was not necessary at the time of the original order herein to modify such municipal street lighting rates. At the present time, however, it is necessary and proper that the municipalities using applicant's service for street lighting should bear their proper portion of the increase in operating expenses to which applicant's operations have been subject. This has been cared for in the present instance by an increase of 10 per cent of the monthly bills for municipal street lighting service.

As provided for in Section No. 5 of General Order No. 45 of this Commission, applicant may grant free or reduced rates to municipalities and other governmental bodies, and if applicant so desires it is free to thus reduce its rates for street lighting so that the additional 10 per cent herein authorized will not increase its charges for municipal street lighting

service. If applicant elects not to charge this additional 10 per cent for municipal street lighting service, it must do so at its own loss, and in any rate-fixing proceeding hereafter, we shall require applicant to show as its revenue from this source, not the amounts which it may collect under such reduced rates, but the proper amounts which would result from the addition of this 10 per cent surcharge. In other words, if applicant elects to carry the burden instead of placing it upon its municipal street lighting consumers where it belongs, it will do so at its own loss and will not be entitled before this Commission to claim an insufficiency of revenue by so doing.

If the above changes be made, applicant's net income will be brought up to the amount which we have shown it is entitled to earn, and the increases thus proposed can not in any sense be considered burdensome to its consumers.

If the surcharges authorized in Decision No. 5889 and now in effect be discontinued, and in lieu thereof applicant be authorized to impose the surcharges set forth in the order herein, applicant's electric revenues will be increased to \$978,594.00, its expenses will be increased to \$593,460.00, and the net income for interest and depreciation will be \$385,134.00 per annum,

which is slightly less than 10.25 per cent for interest and depreciation upon the stated average capital of \$3,760,000.00.

I submit the following form of order:

ORDER

Western States Gas and Electric Company having applied to the Railroad Commission for a modification of its gas rates as established in Decision No. 5485, and for a modification of its electric rates as established in Decision No. 5889, a hearing having been held, the matters submitted and being now ready for decision, the Railroad Commission of the State of California hereby finds as a fact that the gas rates established in Decision No. 5485 and the electric rates established in Decision No. 5889 are, under present conditions inadequate, and in so far as they differ from the rates herein established, are not fair or reasonable rates, and that the rates and charges for gas and electricity herein established are just and reasonable rates.

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

IT IS HEREBY ORDERED that the surcharge of 10 cents per thousand cubic feet authorized Western States Gas and Electric Company in Decision No. 5485 on its gas rates be, and the same is hereby discontinued for all meter readings taken on and after the 20th day of March 1919.

IT IS FURTHER ORDERED that Western States Gas and Electric Company charge and collect for gas sold in its Stockton Division, for all meter readings taken on and after the 20th day of March 1919, in accordance with the following schedule of gas rates:

WESTERN STATES GAS AND ELECTRIC COMPANY

Stockton Division

Lighting, Heating and Cooking Rate

Stockton and Suburbs

			<u>Gross</u>	<u>Net</u>
			<u>Per M. Cu. Ft.</u>	
For the first	25 000	cu.ft. per month,	\$1.15	\$1.10
" " next	25 000	" " " "	1.05	1.00
" " "	25 000	" " " "	.95	.95
" " "	25 000	" " " "	.85	.85
" " "	25 000	" " " "	.75	.75
" all over	125 000	" " " "	.70	.70
Minimum monthly charge per meter			.75	.70

Discount:

The net charge applies if the bill is paid within 10 days of date of bill.

IT IS HEREBY FURTHER ORDERED that the surcharges authorized Western States Gas and Electric Company in Decision No. 5889 on its electric rates be, and the same are hereby discontinued for all meter readings taken on and after the 20th day of March 1919.

IT IS HEREBY FURTHER ORDERED that Western States Gas and Electric Company be and is hereby authorized to charge and collect for electricity sold 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	10% of monthly bill.
For energy sold for power service and for heating and cooking,	1½ mills per k.w.h.
For energy sold for electric railway service and to other electric utilities and municipalities for resale,	1 mill per k.w.h.
For municipal street lighting service,	10% of monthly bill.

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

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 the gas rates herein established and an amended schedule of electric 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 of electricity in its 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 gas and electric 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 13th day of March 1919.

Edwin O. Edgerton
A. D. Hayward
Frank A. Colver
Ernest Martin

COMMISSIONERS