

ORIGINAL

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

-oOo-

In the Matter of the Application of the)
 NORTHERN CALIFORNIA POWER COMPANY,)
 CONSOLIDATED, a corporation, for an or- : Application No. 4028
 der authorizing it to increase its rates)
 and charges for electric energy.)

- Allen P. Matthew, for applicant,
- Harrison & Harrison and W. P. Johnson, for
Los Molinos Land Co.
- Harrison & Harrison and Harold Wheeler for M.L.M.
Cone, Cone Ranch Co., Cone & Ward Company and
Mary E. Runyon.
- Wilson & Wilson, for Leland Stanford Jr., University.
- W. D. Dilletson, City Attorney, for City of Redding
and Mountain Copper Company.
- Harry Donnelly, City Attorney, for City of Kennett.
- E. L. Randall, City Attorney, for City of Corning.
- Bacigalupi & Elkus, by Charles De Y. Elkus, for the
Provident Irrigation District.
- Alfred Sutro and O. J. Egleston, for the United
States Smelting, Refining and Mining Company.
- R. F. Lewis, for Shasta Dredging Company.
- E. McAllister for Antelope Creek and Red Bluff
Water Co.
- Chickering & Gregory and J. S. Houseman, for
Somers & Company.

EDGERTON, Commissioner:

O P I N I O N

In this proceeding Northern California Power Company Consolidated applies for authority to increase its rates and

charges for electricity, alleging that its operating expenses have increased to such an extent as to necessitate increased revenue in order to obtain a reasonable return from its business and to preserve its financial status.

Applicant originally prayed for certain specific increases in its rates in the form of surcharges for its several classes of service, but amended its petition requesting relief in whatever form the Commission might deem proper.

Northern California Power Company, Consolidated hereinafter referred to as applicant, is engaged in the generation, transmission and distribution of electricity, the production and distribution of gas and in the service of water in the northern end of the Sacramento Valley. It supplies most of the principal communities in this section, irrigation load in the rural districts and considerable mining and smelting load at the northern end of its system. This proceeding embraces applicant's electric business only.

The Railroad Commission fixed the electric rates of Northern California Power Company, Consolidated in Decision No. 3624 in Application No. 1625 and in Cases numbers 675, 676, 677 and 711 (Vol. XI Opinions and Orders of the Railroad Commission of the State of California, page 37).

The Commission exhaustively investigated all of the affairs of the Company, and by Decision No. 3624 established electric, gas and water rates. All

questions of valuation were thoroughly covered in this previous proceeding and the figures there found will be used as a basis for the present capital upon which return is to be earned.

Applicant's claim for rate increases at this time involves three principal factors:

First, an increase of approximately \$100,000. per annum in operating expenses.

Second, a probable loss in revenue due to the return to former conditions in mining, smelting and irrigation, and

Third, the inclusion of approximately \$1,300,000. of hydroelectric properties which were classed as nonoperative in 1916 at the time Decision No. 3624 supra was handed down, which property applicant now claims has, by reason of the growth of its load, become fully operative and upon which it is therefore entitled to earn a return.

Applicant's business of supplying electricity at the northern end of the Sacramento Valley has grown substantially since its inception, and particularly since 1915. This growth has been irregular. By far the largest portion of the energy sold by applicant is for mining operations, for irrigation pumping and at wholesale to Pacific Gas & Electric Company. The activities of the mining industries of this section are subject to wide variation from year to year with a consequent effect upon use of power and upon the earnings of applicant. Similarly the use of power in irrigation is adversely affected by seasonal rainfall, and the sale of power to the Pacific Gas & Electric Company is governed partly by the demand of that company and partly

by the amount of power available on applicant's system not otherwise absorbed by its own load.

Northern California Power Company, Consolidated is exclusively an hydroelectric utility, there being no steam reserve. This is of particular moment in the present instance when contrasted with other utilities in this section of the state, for the largest factors in the increased cost of the others has been attributable to fuel oil prices.

Applicant's gross revenue and operating expenses by twelve months periods have been as follows:

TABLE I
NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED
ELECTRIC DEPARTMENT
GROSS REVENUES AND OPERATING EXPENSES

	<u>Gross Revenue</u>	<u>Maintenance & Operating Expense</u>
Year ending June 30, 1916	\$ 753,689.	\$242,222.
Year ending December 31, 1916	768,788.	245,601.
Year ending June 30, 1917	771,527.	254,857.
Year ending December 31, 1917	882,102.	261,135.
Year ending June 30, 1918	1,015,382.	283,762.
Year ending December 31, 1918 (partially estimated)	1,045,814.	300,021.
Year ending December 31, 1919 (applicant's estimate)	962,519.	363,426.

An apparent steady growth has occurred to the end of 1918. However, if the items which make up these figures year by year be examined it is found that each class of business mentioned above has been subject to wide variation. The

greatly increased revenue of the year 1918 is the result of expansion in mining and smelting occasioned by the war, by greatly enlarged activities in irrigation, due not only to a very dry year but due also to the extensive cultivation of rice and to a shortage of power on the other electric systems in this section of the state which permitted applicant herein to supply all of its excess available during the dry season.

The figures of operating expense in Table I above, cover only the maintenance and operation of the properties, not including any taxes, reserves, or depreciation allowance, and represent only applicant's outlay for labor, material and incidental charges classed as direct operating expense. It will be noted that prior to June 30, 1917 very little increase occurred in expenses, following which, however, its expenses to date have steadily grown.

Applicant shows that some curtailment in its revenues for the present year must be expected on account of resumption of normal conditions in the industries it supplies, and presents its case on the assumption of a normal year in so far as rainfall, water conditions, etc. are concerned, and shows further the necessity for meeting its increased operating expenses. As has been pointed out above, applicant operates no steam generating plants so that its increase in expense is due entirely to higher wages and higher costs of materials.

Comparing the items of revenue and operating expense shown above, it is evident that applicant's income

has increased at a rate faster than have its expenses so that the net income available for depreciation, reserves and return has been steadily climbing.

The following table sets forth the revenue, expense and net income of applicant's electric department for the years ending December 31, 1916, 1917 and 1918. This table is compiled from applicant's annual reports to the Railroad Commission and from the figures submitted in evidence.

TABLE II
NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED
ELECTRIC DEPARTMENT
NET INCOME

	<u>Gross Revenue</u>	<u>Maintenance and Operating Expenses and Taxes</u>	<u>Net for Depreciation Reserve and Return</u>
1916 - - - - -	768,788.	283,108.	485,680.
1917 - - - - -	882,102.	303,887.	578,215.
1918 partially esti- mated	1,045,814.	360,237.	685,577.

In spite of the increase in expenses, applicant's net income has increased as shown above at the rate of \$100,000 per year, and its net for the year ending December 31, 1918, is the largest that it has ever had.

This is not the entire story, however, for its capital expenditures during the same period have substantially increased and the growth of load which resulted in increased earnings has likewise called into operation portions of the property which have heretofore been considered non-operative in so far as affects the rate base.

Since September 30, 1915, applicant has expended for new electric construction to supply its increase in loads the following amounts:

TABLE III
NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED
ELECTRIC DEPARTMENT
NET ADDITIONS TO ELECTRIC CAPITAL

From Sept. 30, 1915 to June 30, 1916	\$185,132.
For year ending June 30, 1917	159,674.
For year ending June 30, 1918	339,499.
From June 30, 1918 to Nov. 30, 1918	<u>116,990.</u>
or a total for the period of - - - -	\$801,295.

In addition to these amounts property previously considered non-operative and valued in Decision No. 3624 supra at \$1,336,773. is now fully used in the service of its consumers and has so been used since 1918. Thus applicant is now devoting to the use of consumers property valued at \$2,138,068. greater than during the year 1915.

Based upon the findings of value of applicant's electric properties in Decision No. 3624 and the actual additions and betterments to date, the following table shows the average electric capital for three years past, together with an estimate of capital for the year 1919. The items include all operative physical properties, and reasonable allowances for materials and supplies and working cash capital. In this table one-half of the capital considered as non-operative in this Commission's Decision 3624 supra has been considered to become operative in

1917 and the entire amount in 1918.

TABLE IV
NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED
AVERAGE ELECTRIC CAPITAL

1916	\$5,988,071.
1917	6,826,132.
1918	7,844,017.
1919 (estimate)	8,116,007.

The following table shows revenue, expense, net ~~operating expense~~ return and the ratio of such to the average capital for years 1916, 1917 and 1918.

TABLE V
NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED
ELECTRIC DEPARTMENT
REVENUE EXPENSE AND RETURN ON CAPITAL

	<u>1916</u>	<u>1917</u>	<u>1918</u> Partially Estimated
Gross Revenue	\$ 768,798.	\$ 882,102.	\$1,051,428.
Maintenance	95,827.	100,479.	101,400.
Operating Expense	149,774.	160,656.	198,621.
Taxes	37,507.	42,752.	60,216.
Depreciation	<u>81,000.</u>	<u>92,000.</u>	<u>106,000.</u>
Total Operating Ex- pense	\$ 364,108.	\$ 395,887.	\$ 466,237.
Net return	404,680.	486,215.	585,191.
Capital (Table IV)	5,988,071.	6,826,132.	7,844,017.
Percentage for return	6.76%	7.12%	7.47%

Applicant submits an estimate of its electric revenues for the year 1919 from existing rates in the amount of

\$962,519. which is substantially less than that of the year 1918. Applicant's figures show a reduction in sales for residence, commercial and municipal lighting, for irrigation pumping, for mining and for power delivered to Pacific Gas & Electric Company at Chico. A careful analysis of the figures submitted convinces me that applicant's electric revenue for the year 1919 will be the sum of \$985,600. which figure is adopted as the probable revenue that will accrue to applicant for the year 1919 under existing rates.

Pacific Gas & Electric Company's contract for Chico delivery of electricity is a somewhat elastic arrangement, permitting applicant to dispose of excess power so that when the normal demands on its system drop off, deliveries may be increased to Pacific Gas & Electric Company, although the revenue then obtained is less than if such power were sold to regular consumers. Since 1916 the growth of applicant's business has imposed sufficient demand upon its resources to absorb a large portion of the energy heretofore transferred to Pacific Gas & Electric Company. The fact that the rate at which this is sold is higher than the rate to the Pacific Gas & Electric Company results in a constantly growing revenue without a proportionate increase in the quantity of energy sold.

In analyzing applicant's operating expenses it is interesting to note that they are not substantially modified by changes in the quantity of energy sold and therefore by the amount of revenue resulting therefrom.

In fact under normal conditions there would be little, if any, changes in applicant's expenses from year to year except as to the necessity for more extensive maintenance of its properties. Tax figures, however, being based largely upon revenue would be subject to whatever fluctuations occur.

Applicant's maintenance expenses for the past four or five years have averaged from \$95,000 to \$100,000 per annum. In spite of the increased cost of labor and material applicant shows no increase in this item for the year 1919. If but normal maintenance is to be continued, there will be at least some increase due to higher prices. In any event expansion of facilities will require increasing maintenance to keep up the standard of service and applicant's estimate of maintenance is low. The continuation of good service will necessitate the expenditure of \$110,000 per annum for this purpose, which figure is included as a reasonable operating expense.

Applicant's business aside from a small lighting and power use is subject to wide seasonal and annual fluctuations. It would not be fair therefore to applicant's regular consumers, who constitute its permanent business, to require them to pay in the form of increased rates for the loss (perhaps only temporary) of business of larger consumers. This matter should be viewed from the standpoint of an average of the conditions existing in the years 1917 and 1918 and what reasonably may be anticipated for 1919. The utility must expect to bear some portion of the burden of lean years as it has enjoyed the returns of the good years. The year 1917

yielded a fair average return. The year 1918 was to the utility's advantage. The year 1919 shows some loss in revenue. If we take an average of these three years we are using a figure which will eliminate the fluctuations which are the disturbing elements herein, and which will produce an equitable result.

Therefore the figure of \$973,043. will be used for gross revenue, which is the average of the figures previously set forth for the year 1917, 1918 and 1919 (estimated), and the item of \$7,595,385. for electric department capital which is a similar average for the three years. Under the conditions which prevailed prior to December 31, 1918 which includes conditions for 1917 and 1918, applicant's expense and net available for depreciation, reserve and return would on this basis be as follows:

Revenue	\$973,043.
Maintenance	100,000.
Operation	180,000.
Taxes	59,990.
Depreciation	<u>102,000.</u>
Total Expense	\$441,990.
Net Income	\$531,453.

which is 7.00% upon \$7,595,385. the average capital for the three years. This cannot in any sense be considered excessive and is apparently all that applicant can earn on the average of its three past years business under the most favorable conditions.

Under the conditions which applicant shows will prevail during the year 1919, its expenses for maintenance and operation will be increased. I believe the

reasonable expense for maintenance of applicant's properties will be \$110,000. per annum, while for operation \$260,000. will be necessary to meet the expenses under present conditions. The total reasonable expense of maintenance, operation, taxes and depreciation under present higher cost conditions would be \$531,990. and the net income available for return would be \$441,053. This corresponds to 5.81% on the average three year capital and applicant's net income on this basis would be reduced by the sum of \$90,000 per annum. I regard it as proper at this time to restore the rate of return which would have obtained under former conditions, thereby offsetting the increase in direct operating expense. On account of the increased expense incidental to electric service on applicant's system its rates and charges for electricity should be increased by 10% of the basic rates and charges now in effect.

The present rates and charges for electricity were established after an extended investigation September, 1916, at which time thorough consideration was given to the equitable distribution of costs as between various classes of service. Since this is reflected in the rate schedules in effect, and since the increased costs of operation that have subsequently arisen are found to be due almost entirely to labor and materials which uniformly affect all classes of service, it is not necessary to fix different surcharges for different classes of service but rather to fix a uniform surcharge of 10% upon all existing rate schedules.

With an increase in revenue of 10% and making due allowance for the increase in taxes which will follow, applicant will earn on the basis of the average three year revenue above, a net of \$532,508. available for return, which is 7.02% of average capital for three years used above. If the proposed surcharge be applied to the probable revenue for the year 1919, applicant's net return will amount to \$537,947. which corresponds to a return of 6.63% upon the estimated capital of \$8,116,007. for the year 1919. It must be noted that this return is figured on reduced revenue as compared with increased capital.

No consideration has been given herein to either the capital investment or the revenue incidental to the transfer of power by applicant over its system from California-Oregon Power Company to Pacific Gas & Electric Company in accordance with the terms of the tri-party contract dated June 11, 1918 which is now in operation. This contract will be a substantial source of income to the Northern California Power Company, Consolidated, and will assist it in meeting its obligations, not only those incurred in the performance of this contract, but also those otherwise attaching to its regular affairs. Under this contract Northern California Power Company, Consolidated will also sell some of its surplus power at Colusa to Pacific Gas & Electric Company in excess of the present contractual obligations for delivery at Chico. This item is extremely variable dependent as it is on load conditions

on both systems. The rates named in this tri-party contract having but recently been passed upon by this Commission, are not to be subject to the surcharge hereinafter authorized.

Applicant's consumers have in the past enjoyed very reasonable rates for nearly all classes of service. The proposed increase of 10% is less than one half of that asked for by applicant and the uniform additional charge of 10% set forth in the order herein is to be compared with applicant's requested increases which vary from 14% to 35% according to the class of service.

By Decision No. 5641, Application No. 3970, dated July 30, 1918 (Volume XV Opinions and Orders Railroad Commission of the State of California, page 1027) applicant herein was authorized to charge and collect for energy sold in that portion of Butte County and in those certain parts of Colusa County where it is in direct competition with Pacific Gas & Electric Company, certain surcharges sufficient to equalize applicant's rates therein with the rates charged by Pacific Gas & Electric Company as increased in accordance with this Commission's order in Decision No. 5519, (Volume XV Opinions and Orders Railroad Commission of the State of California, page 886). Since the rates in such competitive territory have already been sufficiently increased, the surcharge of 10% authorized herein will not apply in such competitive territory.

Herewith a form of Order:

O R D E R

NORTHERN CALIFORNIA POWER COMPANY, CONSOLIDATED, having applied to the Railroad Commission of the State of California for authority to increase its rates and charges for electricity, hearings having been held, the matter being 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 as fixed by the schedules of rates and contracts now on file with the Railroad Commission, excepting such rates and charges as apply in territory served in competition with Pacific Gas & Electric Company, are under existing conditions not just or reasonable rates, and that the existing rates and charges for electricity when modified by the addition of the surcharge herein authorized are just and reasonable rates.

Basing its order 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 Northern California Power Company, Consolidated be and is hereby authorized to charge and collect for electricity in addition to the rates and charges set forth in its schedules of rates and contracts now on file with the Railroad Commission, a surcharge of 10% on all bills rendered, which surcharge shall apply on all regular meter readings taken on and after the first day of May, 1919, and for flat rate service beginning the 1st day

of May, 1919.

PROVIDED that the authority herein granted shall not extend to the rates now charged in those portions of the territory supplied by Northern California Power Company, Consolidated in competition with Pacific Gas & Electric Company, as set forth in Decision No. 5641 supra, or to the rates named in the tri-party contract June 11th 1918, hereinbefore referred to.

FURTHER PROVIDED that Northern California Power Company, Consolidated shall, within ten days of the date of this order, file with the Railroad Commission of the State of California an amendment to its rate schedules on file that shall set forth the surcharge herein authorized.

IT IS FURTHER ORDERED that Northern California Power Company, Consolidated shall file with the Railroad Commission of the State of California on or before the 20th day of each calendar month, a statement of its electric revenues, expense and capital expenditures for the preceding month and such other information as the Railroad Commission shall hereafter designate.

IT IS FURTHER ORDERED that Northern California Power Company, Consolidated shall show separately on all bills rendered its consumers for electricity, the surcharge herein authorized.

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

24th day of April, 1919.

Edwin O. Egerton

Frank R. Dyer

H. B. ...

Dwight Martin
Commissioners.