

Decision No. 6381

ORIGINAL

BEFORE THE RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA

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In the matter of the practice of )  
SIERRA AND SAN FRANCISCO POWER )  
COMPANY as to extensions for elec- ) Case No. 1317  
tric service, on the Commission's )  
own motion. )

Chickering & Gregory, by A. C. Van Fleet,  
for Defendant.  
H. S. Craig for J. Meyer.  
D. Grundy in propria persona.  
Wm. Clauson for Valley Home.  
J. W. Graves for Manteca Board of Trade.

MARTIN, Commissioner.

O P I N I O N

This is a proceeding brought by the Commission on its own motion for the purpose of determining a just and reasonable rule which Sierra and San Francisco Power Company shall follow in the matter of making extensions of its electric distribution system to serve applicants for service. This proceeding was instituted by order of the Commission on the 25th day of April 1919. The order instituting the proceeding states in part as follows:

"IT IS HEREBY FURTHER ORDERED that Sierra and San Francisco Power Company appear at said time and place and show cause why it should not be required to make at its own expense all electric light and power extensions for domestic, residence or commercial service when the cost of said extension is less than \$75.00 per consumer or such other or less amount as the Commission may find reasonable; and further, to show cause why it should not be required to make all extensions for domestic, residence, commercial or agricultural service at its own expense when the cost of said extension exceeds \$75.00 per consumer and when the gross revenue to be derived from the service from said extension shall equal or exceed 25 per cent of the cost of the same."

Numerous complaints had been received by the Commission from prospective consumers desiring electric service for light, heat and power purposes from the Sierra and San Francisco Power Company, and it appeared that, owing to the refusal of defendant to make extensions except upon the advancement by the applicant of the entire cost of the same, the Commission should, upon its own motion, investigate fully the practice of the utility and thereafter fix definite rules which should be followed by defendant in the making of extensions for electric service.

A hearing in this matter was held at Modesto on May 9th, 1919, at which time defendant in this proceeding introduced evidence supporting its practice, and evidence was introduced by various applicants for service regarding the needs for additional power service in the San Joaquin Valley served by defendant and the demands made upon defendant for service which had not been complied with.

It appears that there are a large number of applications for electric service for lighting and power especially in the San Joaquin district of the Sierra and

San Francisco Power Company, the larger number of these coming from the towns of Manteca, Modesto, Turlock and adjacent territory. In the town of Manteca there are several groups of houses service for which has been applied for but which have not been served due to the refusal of defendant to extend its lines. Similar conditions to a less degree exist in the towns of Turlock and Modesto, and there are a number of applicants for light and power service in the rural districts which have not been served by defendant.

In the San Joaquin district of defendant, during the period from November 1st, 1918 to April 30th, 1919, 187 applicants for service requiring only service and meter installation were served by defendant without charge to the applicants. Fifty applicants, largely for power service, advanced the cost of extending service and have been connected or extensions are being made. The amount advanced totalled \$19,406. On April 30th, 1919 there were 125 applicants for service in the San Joaquin district who had not received service because of the failure to advance the cost of the extensions which the company required. Defendant's exhibits segregate these latter extensions into the following classifications:

	<u>Estimated Cost</u>	<u>Estimated Revenue</u>
(1) Extensions, the estimated annual revenue from which is less than 25% of Cost	\$ 37,077	\$ 3,471
(2) Extensions, the estimated annual revenue from which is between 25% and 33-1/3% of the Cost	5,014	1,460
(3) Extensions, the estimated annual revenue from which exceeds 33-1/3% of the Cost	5,754	2,414

An analysis of the exhibit leads to the conclusion that defendant has been low in its estimated revenue and that the actual results would show a somewhat greater amount of expenditures in classes Nos. 2 and 3.

The practice of defendant has been to require applicants to advance the total cost of the extension except where same was less than \$50.00. Interest at 6 per cent per annum was paid on the amount on deposit where the annual return was greater than one-third the cost of the extension. The amount advanced was to be refunded at 20 per cent of the monthly bills, a very slow method of return.

The evidence introduced by defendant in support of its position is, in general, to the effect that due to the financial difficulty which it finds itself in it is not in a position to borrow the necessary funds to make extensions for which application has been made; that although it has had authority for practically a year to issue and sell \$1,000,000 par value of bonds it has not been able to dispose of these bonds; that due to the limitation of earning capacity of the company it does not receive from its operations sufficient funds in excess of the operating expenses, taxes and bond interest to make the necessary improvements to its system and extensions of service required; that a material amount of funds are necessary to enlarge its production and transmission facilities in addition to the distribution extensions applied for by consumers, and that due to these limiting conditions defendant is not able to raise the funds which would be necessary to make, at its own expense, additions and betterments to its property.

Authority was granted defendant to increase its rates by this Commission's Decision 5867, issued October 22nd, 1918. It appears, however, that the resultant net earnings of defendant are not materially in excess of the requirements for depreciation and bond interest due to the increased operating expenses. It, therefore, appears that no material amount for extensions could be obtained from earnings to make the necessary extensions.

Evidence shows that during the period from July 1st, 1918 to March 31st, 1919 defendant expended \$153,000 in additions and betterments to its system, of which \$61,000 was expended largely for distribution extensions in the San Joaquin district.

Defendant's hydro-electric plants are operating to full capacity and it is necessary within the next 2 years that considerable development be made, costing in excess of \$1,000,000, in order to supply the additional requirements for power made by its consumers. From consideration of this it is apparent that if defendant expects to continue as an active growing utility it must obtain from outside sources additional monies in relatively large amounts to produce the power required by the districts it serves and meet the reasonable demands for extensions of service on its system.

In addition to the necessary developments in plant capacity certain parts of defendant's system are suffering from poor service conditions resulting from insufficient transmission circuits and defendant must, within the near future, expend large amounts of money in improving service conditions on its system.

Defendant's system is a difficult one from which to determine the exact relation between production, transmission and distribution costs owing to the fact that a large part of its power is sold at wholesale. However, it is very apparent, from the evidence herein, that defendant is required to make very material investments at this time to take care of its growing demands for power and to supply the power necessary for those applying for service. Defendant will, on the average, be required to expend in excess of \$100.00 on production and transmission developments for each \$100.00 invested in distribution extensions to serve consumers.

In determining a rule to cover the matter of extensions in this case consideration must be given not only to the applicants for service but also the existing consumers upon the utility's system. If the taking on of new consumers at the utility's expense uses up the limited capital available it may readily result in poor service conditions to existing consumers and thus the benefit of not requiring applicants for service to advance the costs of the extensions would result in an over-balancing burden upon the public.

Under normal conditions defendant should make all reasonable extensions of service at its own cost and expense and not require assistance from those to be served. If at this time it is temporarily unable to fulfill its obligations in that respect, applicants for service may, I believe, in fairness, be asked to temporarily assist it by loan of funds. This plan should only be allowed during the period when the utility is financially unable to take care of

the requirements for new capital for production, transmission and primary distribution additions and improvements and also make these extensions.

I am convinced that defendant is not able at this time to finance all extensions and betterments which are demanded both in extensions to applicants and extensions to its production and transmission equipment, and although the relative amount required for extensions is small, applicants for service should assist.

In coming to this conclusion I am mindful of the fact that often the requiring of advances by applicants for service results in heavy burdens on them and in some instances would be prohibitive. A fair interest return on monies advanced should be allowed on all reasonable extensions.

The conditions under which the defendant is operating must be of a temporary nature. If the company expects to continue its existence as an active utility rendering reasonable service to the public and fulfilling its obligations and continue as a monopoly in the district, it must put itself in such financial condition as will make possible financing of sufficient magnitude to enlarge its system and maintain service to meet the demands of the territory it holds itself out to serve. If its financial structure is such as to make impossible reasonable financing it is its duty to promptly remedy the same even if this requires drastic action on its part.

At this time we are faced with a practical situation which must be met. I believe it fair and reasonable that certain applicants for service be required to temporarily advance the cost of extensions pending a time when

financing can be carried on by the utility.

Defendant must exert every possible effort to obtain funds at reasonable cost to make the necessary additions to its production, transmission and primary distribution system and maintain its service at as high a standard as possible under the circumstances.

At the present time money is costing utilities in the state approximately 7 per cent or more and I believe that this rate should be paid to applicants who make advances for extensions.

Defendant has applications for a number of residence and domestic consumers and small commercial and power consumers adjacent to its lines, the cost of serving which is less than \$75.00 per consumer. It does not appear reasonable to require individual consumers for residence and domestic and small commercial purposes to advance to the company amounts for extensions where said extensions cost less than \$75.00 per consumer. The amount of money involved in this case on the part of the utility is not large and it should be its duty to make such extensions.

I recommend the following form of order:

#### O R D E R

The Railroad Commission of the State of California having instituted upon its own motion a proceeding to determine a just and reasonable rule by which Sierra and San Francisco Power Company shall be governed in the making of electric extensions, a public hearing having been held and the matter being submitted and now ready for decision,





date of this order, notify each applicant for service who has deposited money with the company for extensions of this order and to the effect that if he so desires, a new agreement may be entered into in accordance with this order.

IT IS HEREBY FURTHER ORDERED that within 10 days from the date of this order defendant shall submit for approval of the Commission, a proposed form of agreement which shall be used in the taking of advances from applicants for service.

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 day of June, 1919.

Edwin O. Egan  
H. J. Loveland  
Frank R. Dyer  
H. V. B. B. B. B. B.  
Irvine Martin  
Commissioners.