# BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application of MT. WHITNEY POWER AND ELECTRIC COMPANY for authority to increase its electric rates.

Application No. 3891 (Supplemental)

E. C. Farnsworth and Harry J. Baner for Applicant.

E. I. Feemster and Guy Khupp for San Joaquin Valley Public Utility Association, Tulare County Branch.

Frank B. Graves for San Joaquin Valley Public Utility Assn., King County Branch,

W. W. Kaye and H. H. Minor for San Joaquin Valley Public Utility Assn., Kern County Branch.

MARTIN, Commissioner.

#### OPINION

Applicant alleges that the present rates charged by it for electric service including surcharge of 10 per cent heretofore authorized by this Commission in its Decision No. 5729, dated August 29, 1918 (Opinions and Orders of the Railroad Commission of the State of California, Vol. 15, Page 1113) are unjust and unreasonable in that they do

not yield applicant a reasonable return upon money invested in its operative property. Applicant requests that the Railroad Commission authorize it to charge and collect a temporary surcharge of 15 per cent in place of the present 10 per cent surcharge.

Applicant operates an electric production, transmission and distribution system in Kings, Tulare and Kern
Counties, distributing electric energy for residence, domestic,
commercial and agricultural purposes. Approximately 80
per cent of its business is the service of power for agricultural pumping, the majority of which is in Tulare County.
In a portion of the territory it is in competition with San
Josquin Light & Power Corporation, and, in general, the districts
served by the two companies are similar.

Applicant is controlled by Southern California Edison Company, by which its operations are supervised and from which it must obtain funds for the extension of its business and from which it purchases power for distribution to supplement its existing plants.

The basic rates now in effect on applicant's system, as well as those charged San Josquin Light and Power Corporation, were fixed by this Commission in orders issued April 6, 1916, which rates were based upon operating costs in effect prior to the increased costs which were partially due to war conditions, and which have continued thereafter. The rates at that time fixed for the two companies' systems were made the same.

In the Spring of 1918, San Josquin Light and Power Corporation applied to this Commission for authority to in-

penses resulting from shortage of water, increased cost and use of oil, increased cost of labor, material and supplies. After full investigation, this Commission issued its Decision No. 5449, dated May 28, 1918 (Opinions and Orders of the Railroad Commission of the State of California, Vol. 15, Page 788), authorizing San Joaquin Light and Power Corporation to increase its rates by the addition of a 10 per cent surcharge.

Following this decision, applicant herein made
its application (Application 2891) for authority to increase
its rates by a similar surcharge of 10 per cent. Hearings
were held and investigation made by the Commission, and
in this Commission's Decision No. 5729, the Commission found
that the increase requested was justified, and authorized applicant to charge the same for service rendered on and after
September 1, 1918. From an analysis of the evidence as set
forth in the opinion in said decision, it appears that it was
not expected applicant could earn in excess of 6.6 per cent,
even if the surcharge had been applied for the entire year.

Subsequent thereto, San Josquin Light and Power Corporation made a further application (Application No. 4064) for an additional increase in its rates, alleging greater increase in its operating costs due to shortage of water and increase in the cost of labor, material and supplies. Upon investigation in connection with this application, the Commission found that the 10 per cent surcharge would not cover the increased costs and return to San Josquin Light & Power Corporation a reasonable return, and thereafter, in Decision

No. 6095, dated January 30, 1919, authorized it to increase its basic rates by the addition of a 15 per cent surcharge in place of the 10 per cent previously authorized.

In general, applicant has earned under the rates fixed, and which are identical with those charged by San Josquin Light and Power Corporation, a less rate of return than San Josquin Company, due largely to the less extensive business served, and the lack of diversity in its business.

On February 12, 1919, Mt. Whitney Power and Electric Company filed its application (Supplemental App. No. 3891), now before the Commission for decision, requesting that its surcharge be increased to 15 per cent. A hearing was held in this matter on March 12, 1919, at which protests were filed by a number of applicant's consumers against, not only the increase in rates, but also as to the quality of service rendered. Protestants were desirous of forming an organization and presenting evidence relative to the application to the Commission, and a continuance of the hearing was granted for this purpose to May 12, 1919, which defendant agreed to. At the latter date, a further hearing was held and the matter submitted. It was stipulated that evidence in previous formal matters affecting applicant together with reports of the Commission, would be considered in Applicant's direct evidence is set forth in the two exhibits showing the reported earnings for 1918, and the estimates for 1919, with the existing surcharges in effect, and also with a 15 per cent surcharge throughout the year 1919. These exhibits were submitted by testimony of Mr. H. A. Barre, Electrical and Mechanical Engineer for applicant, and also by testimony regarding results of service investigation by Mr. S. M. Kennedy, General Agent of Southern California Edison Company.

During the interim between the hearings, protestants formed the San Josquin Valley Public Utility Assn., comprising some 2,000 power consumers in Kings, Tulare and Kern Counties, employed attorneys and engineer, and submitted at the second hearing a very complete study of the matters before the Commission.

Evidence introduced by protestants was included in eleven exhibits introduced by Mr. C. H. Holley, Engineer for protestants, who made an analysis of records of the company and deductions as to the rate of return which had been received, and which it was estimated would be received for the year 1919.

Since the issuance of Decision No. 5729, granting an increase of 10 per cent on applicant's system, applicant has purchased the H. G. Lacey Company's electric distribution system in Hanford, and the same has now become a part of the Mt. Whitney Company's property. This system is, in general, isolated from applicant's system. Energy is purchased from San Josquin Light and Power Corporation at Hanford and distributed mostly within the city limits. The rates now in effect on the H. G. Lacey system are similar to the basic rates on Mt. Whitney system with the exception of some minor differences.

Applicant urges that the Lacey Company property be considered at this time on the same basis with the remainder of its system, urging that the rates on the entire system be made the same regardless of the fact that the Lacey property

is in general isolated from the rest of the Mt. Whitney system. The town of Hanford is the only community in the San Joaquin Valley from Merced south that has different rates than those charged on the San Joaquin and Mt. Whitney systems. Other towns such as Fresno, Visalia, Porterville, Merced, Bakersfield, Madera, etc., are at this time paying the regular rates charged by San Joaquin and Mt. Whitney Companies, together with the surcharges heretofore authorized.

Prior to the consolidation; the Hanford property was owned separately and showed, under the then existing condition, an adequate return on the property in said City. Since that time, however, further increase in cost of power has resulted from the increase in the surcharge on purchased power from San Josquin Light and Power Corporation, and there has been a further increase in the cost of material, labor and supplies to the extent that, from a careful analysis of the evidence in this proceeding, it would appear that with the Mt. Whitney and San Josquin rates and surcharges in effect on that system, the return received will be reasonable. I would recommend, therefore, that the Mt. Whitney Power and Miectric Company be directed to file and make effective for its Hanford district its general rates for electric service, and that it be authorized to charge such surcharges on that system as is found to be just and reasonable, considering the company in its entirety, with the exception that no surcharge be authorized on the street lighting contract in Hanford. This contract was entered into during the war period/contemplated increased costs of operation.

In discussing and analyzing the evidence herein,

I will consider the main differences between evidence pre-

sented by applicants and protestants.

Applicant's estimate of the total rate base for 1919 for the entire properties, as submitted by Mr. Barre. is \$6,103,117.23. Protestants' estimate of rate base as of December 31, 1918 for the combined properties is \$5,451,711.23. In arriving at these estimates, applicant took as a basis the figures in the Commission's Decision 3242, the protestant used the book figures as set forth in the company's Annual Report, less certain deductions. There are three main items which account for the main difference: First, Protestants urge that the rate base for 1919 should be the capital as of December 31, 1918, while applicant has included an estimate of half the additions and betterments for 1919. Second, protestants urged that the cost of the Wolverton Dam and expenditures on Plant No. 5, which are at present non-operative, should be deducted if the same were included in the rate base submitted by the company. The third difference is due to the difference in estimate of working cash capital and material and supplies, the applicant including the total material and supplies and a certain estimate of working cash capital, while protestants included only that portion of material and supplies which may be considered as chargeable to operations, and a portion of expenditures for capital purposes, and a lesser amount for working capital than applicant.

From analysis of the evidence, it appears to me that the rate base for 1919 should include the estimated average operative capital as of June 30, 1919. The method of charging interest during construction followed by applicant is to capitalize 1% of the cost which contemplates two

months construction period as most of the expenditures are for the distribution system, and are operative in a month or two after construction work is started.

An investigation of the Commission's previous Decision No. 3242 shows that at that time the expenditures for the Wolverton Dam and Plant No. 5 were considered such as would become operative within the year 1916, and were included in capital. At the present time this work has not been completed, and it appears probable that the same will not be in the near future. I believe, therefore, that in determining the rate base, the item of cost of this equipment should be deducted. This is set forth in protestants exhibit as \$141,594.00.

I am especially impressed with the presentation of protestants as to the amount of working cash capital and material and supplies. Applicant is purchasing a large portion of its electric energy from Southern California Edison Company, and has the same period for payment as its consumers Under the circumstances, a full allowance upon the basis generally followed by the Commission would be excessive. The material and supply account included in the rate base contemplates mainly operating material and supplies, and not material and supplies for construction purposes. APplicant has at this time a large amount of material and supplies on hand which are used for additions and betterments to its system, and it does not appear that all of this should be considered as a part of the rate base. I will accept Protestants estimate of working cash capital and material and supplies of \$213,927 as reasonable.

I find as a result, that the reasonable rate base

for the entire Mt. Whitney properties, including the former H. G. Lacey properties, for the year 1918, will be \$5,317,000, and for the year 1919, \$5,740,000, and will use these figures in determining the rates of return.

Applicant estimates the reasonable depreciation annuity allowance for the year 1919 at \$117,000. This figure is based upon the Commission's estimate as set forth in its Decision No. 3242 (Supra). As compared with this, Engineer Holley estimates the reasonable depreciation allowance for the main properties at \$75,000, and for the H. G. Lacey Properties \$4,838.00, or a total of \$79,838.00.

The allowance for depreciation made by the Commission in its decision above referred to, was based upon a very careful analysis and estimate of probable lives of property and equipment and I do not consider that there has been sufficient evidence introduced at this time to change the basis of the Commission's estimate, especially in consideration of the low return which applicant has earned and also the fact that the rate of depreciation fixed for the Mt. Whitney system was determined after a very exhaustive study by the Commission, in which consideration was given to estimates in many other proceedings. Correcting for the differences in capital and the deduction of the Welverton Dam and Plant No. 5 expenditures, I find that a reasonable amount for depreciation annuity for the year 1919 would be \$115,000.00

Applicant's and protestants' estimate of revenue for 1919 differ by approximately \$52,000. Applicant's estimate, based upon the continuation of the present rates and surcharges for the year 1919, is \$1,350,488.32, as compared with protestants' estimate for the Mt. Whitney original system plus the H. G. Lacey properties, as set forth in their brief filed subsequent to the hearing, of \$1,402,294.36

It appears from the statement filed by applicant in reply to protestants' brief, that an error of \$10,000. had been made in applicant's estimate. The remaining difference is largely due to a difference in the estimate of return from agricultural power. Protestants arrive at their final estimate, as set forth in their summary statement, by analysis of the rate of increase in

revenue per horsepower in 1918 over 1917 and applying the same general increase to the business taken on in 1919. Applicant has used as a basis the average inand 1918. come per horsepower as determined from the total installation during previous years. The year 1918 was, in many respects, an abnormal year. Considerable additional revenue was received during the first 3 months of 1918 over what would normally be expected due to a continued drought, while to partially offset this, early rains reduced the power consumption in the Fall. Considering this fact, and in light of the evidence introduced, it would appear more accurate to estimate the revenue for additional horsepower installed on the basis of average conditions over a period of years rather than the actual difference between 1917 and 1918. It would appear that a reasonable estimate of the revenue for the combined properties for 1919, assuming the present surcharges to continue, would be \$1,365,000.

mated by Mr. Barre to be approximately 3,000,000 kilowatt hours, in excess of Mr. Holley's estimate. However, the difference in the estimate of power required to be purchased from Southern California Edison Company is slightly in excess of 7,000,000 kilowatt hours. Mr. Holley estimates the power available from the hydro-electric plants of Mt. Whitney Company at 62,000,000 kilowatt hours. It appears, however, in arriving at his estimate that he has included therein energy delivered to Southern California Edison Company, which will approximate 7,000,000 kilowatt hours for the year. In the brief of protestants, however, credit has been made for the sale of this energy

to the Edison Company and it appears, from consideration of the evidence presented, that the total output of the hydro-electric plants will probably not exceed the total estimated by him. Mr. Barre estimates 65,000,000 kilo-hydro watt hours output of the plants of which 7,000,000 kilo-watt hours are delivered to Edison Company, leaving a net amount of 58,000,000 kilowatt hours for distribution on the Mt. Whitney system. I will accept Mr. Barre's estimate as reasonable.

Protestants have made a correction for increased efficiency of 4,000,000 kilowatt hours, resulting from the changing over of applicant's distribution system from 6600 volts to 11,000. An analysis of the effect of this change would tend to show some saving; however, it would not appear that as great a saving as estimated would result. It would appear that the following estimate of power required would be a fair and reasonable estimate to use in connection with this proceeding:

Total energy required	113,500,000	k.w.h.
Produced from hydro plants direct to Mt. Whitney system	58,000,000	· 17
Steam production - Visalia plant	1,000,000	π
Power purchased from Edison Company	54,500,000	π

There appears to be a general agreement as to the cost of operation of steam and hydro plants, estimated by applicant to be \$87,000. After considering all the evidence as regards the reasonable price of electric energy purchased from the Edison Company I must conclude that the charge of 8.3 mills per kilowatt hour is a reasonable charge for the power. Although this is based upon the additional cost to serve applicant under the present condi-

tions, it does not appear that there would actually be any reduction in the estimated cost should the charge to applicant be determined on the average cost of producing power on the Edison Company's system. I desire to call Southern California Edison Company's attention, however, to the fact that as the controlling interest in the Mt. Whitney Power and Electric Company, the sale of energy to the Mt. Whitney Company must be considered as a part of the direct obligations of Southern California Edison Company and that the Mt. Whitney consumers should participate in any savings which might result on the general Edison Com-The following appears a fair estimate of pany system. the production costs of Mt. Whitney Power and Electric. Company:

Hydro and steam production cost Purchased power	\$87,000 452,350
Total	\$539,350
Credit - Sale to Edison Company	24,500
Power purchased from San Joaquin	\$514,850
Light & Power Corporation	38,000
Total	\$552,850

The estimate of expenses, exclusive of taxes; as set forth by applicant, are as follows:

Distribution	Expenses	\$130,000
Commercial	π	48,000
General	ττ	64,000
	Total	5242,000

Testimony of S. M. Kennedy is to the effect that the plans to improve service conditions which the company

has proposed will require an additional expenditure in the neighborhood of \$5,000 a year, and since the hearing the Commission has been advised that the expenditures have been authorized. I believe it fair, therefore, to allow a total operating charge other than production expense and taxes, of \$245,000 for the year 1919.

Applicant estimates the taxes for 1919 at \$67,000, which is apparently 6 per cent for State and normal Federal tax on the gross revenue for 1918. Although this will probably be the total amount of normal taxes actually paid for 1919 it is well to point out that applicant will incur during 1919 taxes upon the gross revenue received during that year, so that in case the total revenue as herein estimated will be \$1,365,000, the actual incurred will be:

\$75,600

Federal Tax (normal) 2,400

Total . . \$78,000

Considering the evidence presented, as heretofore/discussed, it would appear that the following table sets forth a reasonable and fair estimate of the capital, revenue and expense for the year 1919, assuming that the present rates and surcharges remain in effect:

Estimated Rate Base \$5,714,000 Revenue 1,365,000

Operating Expenses: Production Distribution Commercial General Uncollectible Bills	\$552,850 133,000 48,000 64,000
Total	. \$807,850
Taxes	78,000
Total Expense .	. \$885,850
Net for Depreciation and Return	\$479,150
Depreciation	115,000
Net	\$364,150
Miscellaneous Income	6,000
Net for Return on Rate Base	\$370 <b>,</b> 150
Percent Return upon Rate Base	6.47

In case the increase in surcharge on the general system of 5 per cent is authorized for the last six months and a surcharge of 15 per cent is authorized on the former H. G. Lacey properties with the exception of the street lighting service for the last six months, the gross revenue will be increased approximately \$40,500. On this basis the net return for the year 1919 will be approximately 7.1 per cent. In case the surcharge should be applied for the entire year, the rate of return would be approximately 7.75 per cent.

The Commission, in its decision in the San Joaquin Light and Power Company's application, authorized a surcharge of 15 per cent on the basis that the cost of operation was such that this surcharge would be necessary to give the company what has been considered by the Commission as a reasonable return upon capital invested,

which in that case was 8 per cent on the rate base.

From the above I find as a fact that, provided applicant renders reasonable service to its consumers, which it appears that it is doing to the best of its ability under the present conditions, it is entitled to an increase of rates to the extent of adding a total surcharge of 15 per cent.

In concluding to recommend the granting of the increase in the surcharge. I am mindful of the testimony and deductions of applicant that it is taking special steps to improve its service to consumers.

Utilities, in order to receive commensurate rates must fulfill their obligations to their consumers by excrting every reasonable effort to give good service.

It is well to emphasize in connection with the matter of increases in rates for electric service that, even with the surcharge herein authorized, the percentage increase in cost of this service will be materially lower than the general increase in cost of labor and supplies which the consumers have had to pay for their other requirements. Since the basic rates now in effect on the Mt. Whitney system were fixed, the price received by

applicant's agricultural consumers for their products have, in general, increased far in excess of 15 per cent, in fact, certain commodities have increased in price in excess of 100 per cent during that period. Government statistics tend to show that on the average the cost of commodities has increased in excess of 50 per cent, and that at the present time the average purchasing ability of a dollar has been reduced to approximately 60 to 65 cents as compared with its purchasing power in 1915. It is true that these facts in themselves are not a sufficient basis for justifying an increase in rates, but it is well to have them in mind.

with the increase granted, the return applicant will earn upon its investment will be such as to especially encourage large financing. Applicant's consumers must not lose eight of the fact that public utility service in this district has a very important part to play in the full development of agricultural interests, and that to handicap the utility by inadequate rates would result inevitably in a decreased quality of service and an ultimate stifling of the development of the valley. In the final analysis the result would be a detriment to the entire community.

I feel certain that applicant's consumers will gladly meet their responsibility by paying the increased

rates when they realize it is vitally essential to them that the utility earn sufficient to continue to serve its patrons adequately and meet the large and increasing demands for power which are continually being made upon the system.

The evidence shows that applicant and Southern California Edison Company have gone to considerable labor and expense in arranging its system so that the interruption to service which occurred in 1918 will be climinated as far as practicable. Applicant has further agreed. and authorization has been made, for the increasing of its staff so as to better service in certain of its districts, including Tipton, Earlimert and the Venice Hill substation, where special complaint regarding interruption to service occurred in 1918. It is understood in the granting of this increase that the improvements in operation in these districts have been installed and that applicant will continue to do all in its power to render the best service possible.

At the time of the submission of this application Southern California Edison Company had arranged, in order to improve the service on applicant's system, so that it would not be necessary to directly interconnect between the Mt. Whitney and San Joaquin systems. that time the shortage of power supply on the San Joaquin system has become so acute that it is absolutely necessary that the interconnection of these systems be made during the latter part of this year in order to protect the interests of farmers in the Valley. The result of this interconnection will be that the Mt. Whitney consumers will not obtain fully the class of service which applicant promised at the hearing in this application. The Commission has, however, given this matter careful consideration and has concluded that its duty to the general service in the entire San Joaquin Valley is to make possible the full use of all facilities of the electric utilities so that no drastic action would be necessary on the company's part in discontinuing consumers, the result of which would probably be a greater loss to the San Joaquin Valley in total than the inconvenience which would result from a few additional interruptions on the Mt. Whitney system. We are certain that the consumers of the Mt. Whitney Company will be fully in accord with this position.

Complaints were filed in this case against the form of rates in effect on Mt. Whitney system and especially against the use of maximum demand meters, it being the general complaint that the maximum demand meters were not dependable and that often over-charges resulted. It is

apparent that something should be done to relieve this situation. The evidence at present is not sufficient to justify a complete revision of the rates at this time and the Commission is reluctant to make a definite change in the form of rate in the middle of the irrigation season. Pending a final determination of a revised basis for billing for power service which will overcome the difficulties complained of, it would appear advisable that the Commission take steps to investigate all special complaints and make such reasonable adjustments as should be made in view of the individual cases pending a full analysis of the rate situation on the Mt. Whitney system, which the Commission is taking up at this time. Some relief, however, can be obtained by the making effective of an optimal meter rate at this time and applicant has submitted to the Commission for its consideration such a rate, and it is my recommendation that this rate, slightly modified, be put in effect as an optional schedule at this time.

I recommend the following form of order:

## ORDER

Mt. Whitney Power and Electric Company having applied to this Commission for authority to increase its basic rates and charges for electric service by the addition of a 15 per cent surcharge to be applied thereon, in place of the present 10 per cent surcharge, hearings having been held and the matter submitted and now ready for decision.

The Railroad Commission hereby finds as a fact

that the existing rates and surcharges for electric energy sold by Mt. Whitney Power and Electric Company are, under existing conditions, unjust and unreasonable, and that the rates and surcharges herein authorized are just and reasonable.

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

IT IS HEREBY ORDERED that Mt. Whitney Power and Electric Company shall file and make effective over its entire system the general rates now in effect upon its main distribution system, the same to be effective for metered service on all meter readings taken on and after July 15th, and all flat rate service rendered on and after July 1st. 1919.

IT IS HEREBY FURTHER ORDERED that the existing surcharge of 10 per cent now in force and in effect on the Mt. Whitney Power and Electric Company's system be and the same is hereby cancelled, such cancellation to be effective for all flat rate service rendered on and after July 1st, 1919, and on all meter readings for metered service taken on and after July 15th, 1919.

Power and Electric Company be and the same is hereby authorized to charge and collect in addition to bills based upon the basic rates now or hereafter in effect on its entire system, a surcharge of 15 per cent, said surcharge to be applicable to all flat rate service to be rendered on and after July 1st, 1919 and prior to January 31st, 1920, and for metered service based on meter readings taken on

and after July 15th, 1919 and prior to January 15th, 1920, except in the case of street lighting service in the Town of Hanford, on which no surcharge should apply.

IT IS HEREBY FURTHER ORDERED that Mt. Whitney
Power and Electric Company shall file as an optional schedule applicable to agricultural power service for all meter
readings taken on and after July 15th, 1919, the following
schedule:

## OPTIONAL SCHEDULE

## Power Service

## CHARACTER OF SERVICE:

This schedule is applicable to all classes of power to which Schedules 4, 5, 6 and 6-a apply, excepting lighting, heating and cooking service.

#### RATE:

First 100 k.w.h. per month per horsepower of active connected load 2¢ per k.w.h. All over 100 k.w.hs. per month per horsepower of active connected load 12¢ per k.w.h.

## MINIMUM CHARGE:

\$18.00 per year per horsepower but not less than \$54.00 per year, payable in six equal monthly installments beginning with the month of May.

#### MAXIMUM MONTHLY CHARGE:

The maximum monthly charge - \$5.00 per horse-power of connected load.

#### SPECIAL CONDITIONS:

l. The connected load is defined as being the summation of the rating in horsepower of all motors or other utilization equipment which may be connected at any one time to the Company's system.

## SPECIAL CONDITIONS - (Cont'd)

2. When motors are found to operate in excess of the monthly consumption of 600 k.w.hs. per horsepower of rated capacity, the connected load for that month shall be taken as the total monthly consumption in kilowatt hours divided by 600.

This order shall not be construed as disturbing the structure of the rates now on file with the Commission, but Mt. Whitney Power and Electric Company shall, in addition to showing on its bills for electric service the amounts due under the basic rates now in effect, also show separately the surcharge herein authorized.

Mt. Whitney Power and Electric Company shall file with the Railroad Commission on or before the 30th day of each and every month reports in such form as may be described 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 Reilroad Commission of the State of California.

Dated at San Francisco, California, this

22 day of July 1919.

Dring Walis

Commissioners.