

Decision No. 7424

ORIGINAL

BEFORE THE RAILROAD COMMISSION  
OF THE STATE OF CALIFORNIA

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In the Matter of the Application of )  
SOUTHERN CALIFORNIA EDISON COMPANY, )  
a corporation, for an order estab- ) Application No. 5394  
lishing just and reasonable rates )  
for the sale of electricity. )

Roy V. Reppy and B. F. Woodward, for Applicant.  
E. I. Feemster and C. H. Holley, for San Joa-  
quin Valley Public Utility Assn.  
G. A. French, for City of Riverside.  
James F. Farraher, for Farm Bureau of Kern  
County.  
F. G. Wingert, for City of Whittier.  
L. O. Hatch, for City of Eagle Rock.  
M. O. Hert, for City of Colton.  
H. F. Orr, for City of San Buena Ventura.  
T. C. Gould and Grant M. Lorrain, for City  
of Alhambra.  
G. H. Scott, for City of Santa Ana.  
L. W. Blodgett, for City of Huntington Beach.  
E. J. Marks, for Cities of Fullerton and Brea.  
R. V. Orbison and William Hazlett, for City of  
South Pasadena.  
E. B. Criddle, for Southern Sierras Power Company.  
Earl E. Moss, for Ojai Power Company.  
N. B. Bachtell, for Farmers of Antelope Valley.  
George L. Hoodenpyl, for City of Long Beach.  
Charles S. Burnell and Jess Stephens for City  
of Los Angeles; Howard Robertson and W. B.  
Mathews, for Public Service Commission,  
City of Los Angeles; H. Z. Osborn, Jr., for  
Board of Public Utilities, City of Los Ange-  
les.  
Frank Karr, for Pacific Electric Railway Company.  
C. L. McFarland, for Riverside-Portland Cement  
Company.  
Lew H. Wallace, for City of Newport Beach.  
E. G. Ames, for City of Anaheim.  
William Guthrie, for City of San Bernardino.  
Glenn D. Smith, for Ontario Power Company.  
Thomas B. Reed, for City of Covina.  
Clyde Woodworth, for Cities of Inglewood, El  
Segundo and Beverly Hills.  
Victor McLugas, for City of Santa Monica.  
W. W. Phelps, for City of Hermosa Beach.

EDGERTON, Commissioner:

O P I N I O N

Southern California Edison Company applies herein for a comprehensive examination and investigation of its electric rates and an order of the Commission authorizing it to establish just and reasonable permanent rates. It points out, however, that the revenues which it will obtain for the year 1920, based upon its existing rates and the surcharges heretofore authorized by Decision No. 6000, (Opinions and Orders of the Railroad Commission of the State of California Vol. 16, Page 301), will be insufficient to maintain its financial status and to yield a sufficient return upon its business for the year 1920. Applicant urges that it is of paramount importance that its income be maintained this year to make possible the continuance of its power development program to meet the growing demands upon its system. It asks, therefore, pending the complete rate investigation, which will of necessity consume a considerable period of time, that it be granted such temporary increases in its rates as shall be necessary.

Hearings were held in Los Angeles on March 25th, 26th, 27th and 31st, 1920, and the proceeding, in so far as it refers to the emergency condition, was thereupon submitted with the understanding that one week's time be granted to all protestants and interested parties to file, in writing, statements bearing upon the question of temporary increases. Such statements have been filed on behalf of City of Alhambra, Ojai Power Company, City of Whittier, Farmers of Antelope Valley, Riverside Portland Cement Company and City of Los Angeles. The matter is now ready for decision.

The present consideration of electric rates of Southern California Edison Company is, then, confined to the extent to which this utility is entitled to temporary relief on account of conditions which it is anticipated will prevail during the remainder of the year 1920. The Commission will proceed later with the final adjustment of permanent rates as applied for.

In substance, Southern California Edison Company asks that it be granted such temporary rate increases as will enable it not only to meet the increases in its operating expenses due to the present shortage of hydro-electric power and the increases in its costs of oil, labor and materials, but also to preserve its earning capacity and credit sufficiently to permit it to continue to command funds for the extensive program of power development now under way.

The following table shows the revenues, operating expenses, comparative capital, and return on investment for the year 1919 and a forecast by applicant for the year 1920 under the rates and surcharges now in effect:

SOUTHERN CALIFORNIA EDISON COMPANY  
REVENUE AND EXPENSES

	<u>1919</u>	<u>Est. 1920</u>	<u>Increase</u>
Gross Revenue (incl. S.J. & E.Ry. Gross Rev. and Los Angeles City net)	\$10,398,895	\$11,797,000	\$1,398,105
Operating Expenses:			
Production:			
Labor & Supplies	712,084	980,000	267,916
Fuel	1,796,181	3,101,000	1,304,819
Energy from other Sour.	327,265	1,307,000	979,735
Less Power Exchange	<u>476,528</u>	<u>452,000</u>	<u>24,528</u>
Net Production . . . .	\$2,359,002	\$4,936,000	\$2,576,998

Operating Expenses: (Cont'd)	1919	Est. 1920	Increase
(Br't. Fwd.) Net Production	\$2,359,002	\$4,936,000	\$2,576,998
Railway Operation	216,934	254,000	37,066
Transmission	191,716	229,000	37,284
Distribution	532,058	771,000	238,942
Commercial	252,360	262,000	9,640
General Expense	430,538	548,000	117,462
Taxes	622,728	700,000	77,272
Uncollectible Bills	34,455	40,000	5,545
<b>Total Operating Expenses</b>	<b>\$4,639,791</b>	<b>\$7,740,000</b>	<b>\$3,100,209</b>
Net Revenue	\$5,759,104	\$4,057,000	\$1,702,104*
Depreciation	1,000,000	1,100,000	100,000
Return on Investment	\$4,759,104	\$2,957,000	\$1,802,104*
Capital - Comparative	\$65,516,396	\$70,984,000	\$5,467,604

\* Decrease.

The major items of increased expenses over 1919 shown above are as follows:

- (1) Increase of approximately 13% in the power demands of applicant's consumers, or a total requirements of 130,000,000 k.w.h. in excess of 1919.
- (2) Estimated reduction of 28,000,000 k.w.h. of hydro-electric plant output due to excessive draft on storage during 1919.
- (3) Increase in cost of labor, both due to enlarged business and increases in salaries which have been granted.
- (4) Increase in price of fuel oil of 25¢ per bbl. by Oil Producers, effective in March 1920.

The first two items of increased cost have caused an increase in estimated expense of \$1,873,082 in fuel and purchased energy. The increased cost of labor, on account of higher wages and salaries, is ~~approximately~~ \$350,000 for the year, while supplies have increased \$85,000. The latest increase in oil, of 25¢ per bbl., represents an added cost of production of \$436,000. The remaining increase in expense is due to increased labor and supplies on account of growth of busi-

ness and extensions to plants and system. It is apparent from an analysis of these costs, that 80% of the total estimated increase bears on the cost of production.

The figures submitted by Edison Company are based upon a recurrence in 1920 of 1919 water conditions, except that it is not regarded advisable by Edison Company to deplete its water shortage to as great an extent as during 1919. It is probable, if early rains occur during the fall of the current year, that a greater output of hydro-electric power may be anticipated and a corresponding reduction in operating expenses will result. Edison Company contemplates safeguarding its power supply very fully but it is doubtful that this should be carried to the extent proposed, because Southern California Edison Company and San Joaquin Light and Power Corporation will each have an additional 30,000 kilowatt hydro-electric plant in operation by November 1st, 1920, and with these plants in operation, it does not appear that the water in storage need be conserved to a greater extent than during 1919. A reduction in expenses of from \$150,000 to \$300,000 as compared with the estimate by Edison Company can be effected if stored water is used fully this year.

Compared with a normal year of hydro-electric power, the output of applicant's water power plants is estimated to be 200,000,000 kilowatt hours short, requiring applicant to expend \$2,558,000 more to provide such deficiency from steam plants and by purchase of power. This sum represents approximately 3.5% return on investment.

The net return on the business of the consolidated Edison properties as shown in Decision No. 6000, supra, and in the evidence herein, has varied from a minimum of 6.67% in 1918

to a maximum of 7.69% in 1917, based upon the relative capital invested, the actual results for the year 1919 being 7.26%. To earn the same rate of return in 1920 as was produced by the surcharges in 1919, an increase in revenue of \$2,190,000 would be required for the year 1920 over and above that resulting from the present rates and surcharges. This figure, however, is based upon Edison Company's estimates of 1920 operating expenses and which may be reduced slightly.

Applicant submits two estimates of the additional needed revenue for 1920 based upon the bond interest and dividend requirements plus a margin of surplus.

This set-up is based upon considerations which would prevail in normal times, and the required revenue can be reduced from the estimates made by applicant by considering the actual needs of the company for fixed charges, leaving consideration of surplus or margin over the actual requirements to a time when the very severe conditions of high cost is past, or until a permanent rate structure is established. If applicant, in a year when its operating expenses, due to water shortage alone, have been temporarily increased \$2,500,000 above the average, is given a return sufficient to pay its fixed charges, including interest and amortization, and reasonable dividends, it is receiving all that its consumers should be required to pay and all it is justly entitled to receive. The return in normal years of rainfall will make up any deficit below a fair return.

Applicant's general manager urges that it be granted an increase in rates that will yield \$2,685,000 for the year 1920, requiring an average increase of 32½% upon the revenues for the nine months commencing April 1st. It appears that if the reduced cost resulting from greater draft from storage be made and applicant's gross revenue be increased \$2,100,000 during the re-

mainder of the year, it would have at least sufficient to meet its obligations and maintain its credit.

It is vitally necessary for the continued growth and prosperity of the vast territory in Southern California supplied by applicant with electric energy, that its full program of development go forward without serious interruption. I believe it to be in the interest of consumers that they pay rates sufficient reasonably to enable the company to earn a fair and reasonable return upon the actual investment. Unless this is done, it is plain that the utility cannot borrow sufficient funds to carry forward necessary developments. It is of great importance that this program of development go forward. Should there be any halt in this program it is evident that tremendous losses will result to the whole community if sufficient electric energy is not developed to meet the growing demands. It is becoming increasingly evident that the business life of a community such as Southern California is in a very large measure dependent for its growth and expansion, and, in some instances, even its continued operation upon electric energy and as the cost of steam generation is constantly increasing, the necessity for the cheaper production of electricity by hydro-electric development has become more and more recognized.

Of course, it is not to be understood that the Railroad Commission urges the payment of unreasonable rates to stimulate investment in this public utility, but when it is considered that to place this company in a position where it can successfully finance will not result at this time in even an eight per cent. return on investment it will at once be realized that the burden upon the consumer is not unreasonable.

In considering the granting of an increase in rates of the amount herein contemplated, I am especially mindful of the

fact that applicant has been diligently active in the enlarging of its production and transmission facilities since the consolidation of the properties in 1917; it has shown an active determination to carry on development; and, from the evidence presented, has exerted every reasonable effort to meet the demands of the territory served in the face of the difficulties arising from the war period of 1918, and the period of readjustment and high costs of money, material and labor which have continued since. Applicant's evidence shows that it has definite plans for the development of both water and steam power projects to meet its requirements for at least eight years in the future at an estimated cost of \$100,000,000.

Applicant asks that additional temporary revenue be obtained by a percentage increase effective for the remainder of the year, on all its bills for electricity and that the surcharges now in effect be incorporated in its existing rate schedules, thereby permanently increasing each rate thereof, upon which the proposed percentage would apply.

In applicant's Exhibit No. 10, Mr. S. M. Kennedy, General Agent, presented a slight revision of its rate schedule, whereby the present surcharge, authorized in Decision No. 6000, was included as part of the rate schedule. Certain of the power rates were increased .25 cents to absorb the difference in revenue resulting from minimum bills. These charges only slightly modify the charge and appears advisable, with the exception of certain proposed increases in demand charges. I conclude from the evidence that, in view of the emergency condition, a percentage increase be added to the bills based on the rates as set forth in the schedules shown in applicant's Exhibit No. 10, <sup>and</sup> with certain revisions in bills based on other rates and contracts, special or otherwise, including the surcharge heretofore author-



ized in Decision No. 6000.

On this basis an increase of 27% of the bills as above computed will be required to obtain the \$2,100,000 heretofore found necessary.

The City of Los Angeles urges that, due to various reasons, it be exempted from any surcharge or increase in rates which may be granted to applicant. Representatives of other municipalities and consumers of applicant urge that the City of Los Angeles should be treated the same as other consumers of the company. After considering the reasons urged by the City of Los Angeles and the evidence in this proceeding, I must conclude that the Edison Company is, under the present emergency proceeding, entitled to receive from the City of Los Angeles the same surcharge as charged to other wholesale consumers.

The Ojai Power Company protests an increase on the ground that its rates for power is higher than that charged for other utilities. There appears, however, to have been special conditions in connection with the rendering of service to this consumer which would apparently justify a differential in the rate. The additional surcharge to be authorized at this time should apply to all service by the Edison Company, both wholesale and retail, with exception of service to San Joaquin Light and Power Corporation. The existing arrangement by which San Joaquin Light and Power Corporation purchases power from applicant being based on actual cost of production, automatically provides for the proper increase in rates to this customer.

Owing to competitive conditions, the Southern California Edison Company was granted the right to waive the surcharge authorized in Decision No. 6000, supra, in the City of Pasadena and a

portion of South Pasadena, provided it would absorb the loss in revenue resulting, which amounted, during 1919, to \$27,900. This loss was not, therefore, allowed to burden other consumers. The company does not ask that the surcharge applied for in this proceeding be waived in the City of Pasadena, and it appears that, under the present abnormal conditions and the need of increased rates to make possible extensive financing, that applicant should exert every effort possible to collect from the consumers in the City of Pasadena their just proportion of the increased cost. Applicant will be expected to charge and collect the same percentage surcharge for lighting and power service in the City of Pasadena at this time as is authorized for other communities. The waiver of the basic increases authorized in Decision No. 6000 is continued and this amount must be deducted by applicant from its surplus.

The following table sets forth the estimated sales of applicant for 1920, together with the revenue under present rates, including surcharges, also the additional percentage ~~increase~~ increase of 27% herein authorized, together with an estimate of the revenue which would be obtained was this increase in effect for the entire year of 1920. As this increase, however, will be effective only for approximately eight and one-third months of the year, the increase to be obtained will be approximately \$2,100,000, or the amount herein considered as <sup>a</sup> just and reasonable increase.

SOUTHERN CALIFORNIA EDISON COMPANY  
ELECTRIC REVENUE & SURCHARGE INCREASES

-1920-

	K. W. H. Sales	Revenue Present Charges	Increase in Revenue 27% Surcharge	
			12 Mo. Basis	Remainder 1920
<u>Light:</u>				
Municipal St. Lighting	6,730,000	\$ 380,000	\$ 102,600	\$ 72,000
Residence & Commercial	30,620,000	2,320,000	626,400	438,000
Total Lighting	<u>37,350,000</u>	<u>\$ 2,700,000</u>	<u>\$ 729,000</u>	<u>\$ 510,000</u>
 <u>Power:</u>				
Combination Heating and Cooking	3,240,000	\$ 97,000	\$ 26,190	\$ 18,300
Commercial Power	270,270,000	4,115,000	1,111,050	860,000
Railway Power	273,000,000	1,990,000	537,300	405,000
City of Los Angeles	80,000,000	800,000	216,000	100,000
Santa Barbara Elec. Co.	10,500,000	115,000	31,050	23,300
Mt. Whitney Pr. & Elect. Company	73,000,000	605,000	163,350	150,000
All other Electric Corporations	16,000,000	150,000	40,500	40,000
Total Power	<u>726,010,000</u>	<u>\$ 7,872,000</u>	<u>\$ 2,125,440</u>	<u>\$ 1,596,600</u>
 Total	 763,360,000	 \$ 10,572,000	 \$ 2,854,440	 \$ 2,106,600

I recommend the following form of Order:

O R D E R

SOUTHERN CALIFORNIA EDISON COMPANY having applied to the Commission for authority to increase its rates for electric service by the addition of a temporary surcharge, hearings having been held, the matter having been submitted and now ready for decision,

The Railroad Commission hereby finds as a fact that the basic rates together with the surcharges authorized in Decision No. 6000 now in effect are insufficient to supply Southern California Edison Company with an adequate return under the present abnormal conditions, and that the charges, including the 27% surcharge herein set forth and authorized, are just and reasonable.

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

IT IS HEREBY ORDERED that Southern California Edison Company be and the same is hereby authorized to charge and collect for electric energy sold, for metered service rendered based upon all regular meter readings taken on and after April 20th, 1920 and for flat rate municipal and private street lighting service rendered on and after April 20th, 1920, the rates and surcharge hereinafter set forth for service rendered, not including service rendered under the operating agreement with the City of Los Angeles from the distribution system within the City.

RATE:

Schedules Nos. L-1, L-3, L-6, L-7, L-8, L-9, L-10, as revised and set forth in Applicant's Exhibit No. 10.

Schedule No. L-2 as now on file and in effect.

Schedules Nos. C-1 and C-2 as revised and set forth in Applicant's Exhibit No. 10.

Schedules Nos. P-1, P-2, P-3, P-4, P-5, P-8, P-9, P-10, P-11, P-12, P-14, P-15, P-16, P-17, P-18, P-20, P-26, P-27, P-30, P-33, as revised and set forth in Applicant's Exhibit No. 10.

Schedule No. P-25 as now on file and in effect.

Schedules Nos. P-6, P-7, P-19, P-28 and P-31 as now on file plus 0.25 cents per kilowatt hour.

All special rates and rates and contracts not above listed for service rendered, including surcharge where authorized in Decision No. 6000, and including service to Mt. Whitney Power & Electric Company and City of Los Angeles.

ADDITIONAL SURCHARGE:

27% of the bills based on rates and charges above set forth.

IT IS HEREBY FURTHER ORDERED that Southern California Edison Company shall file with the Commission the revised schedules herein set forth together with the surcharge authorized on or before April 20th, 1920.

IT IS HEREBY FURTHER ORDERED that Southern California Edison Company shall file with the Railroad Commission on or before May 31st, 1920, and on the thirtieth day of each and every month thereafter, a statement showing its operating revenues and expenses for the preceding month, and such other information as the Commission may hereafter require.

The percentage surcharge herein authorized shall continue in effect until the 20th day of January 1921 unless other-

wise ordered by this Commission.

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 15<sup>th</sup>

day of April, 1920.

Edwin C. Edgerton

M. J. [unclear]

Frank D. [unclear]

H. A. [unclear]

James M. [unclear]

Commissioners.