

Decision No. 7446

ORIGINAL

BEFORE THE RAILROAD COMMISSION
OF THE STATE OF CALIFORNIA

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In the Matter of the Supplemental
Application of SAN JOAQUIN LIGHT
AND POWER CORPORATION for author-
ity to increase rates. }

Supplemental Application
No. 4064

BY THE COMMISSION:

OPINION ON PETITION FOR REHEARING

Kern County Farm Bureau and Board of Supervisors of Kern County have filed a petition for rehearing herein. We will consider such of the allegations of said petition as seem to require mention.

Petitioners urge that no shortage of power exists at the present time due to precipitation occurring since the submission of the proceeding. The later rains it appears have practically eliminated the necessity of serious curtailment of power in the San Joaquin Valley. However, the determination of reasonable rates by the Commission did not contemplate curtailment of use but was based upon as full a water power supply as was had in 1919.

Petitioners allege that the Commission erred in including under the item of "Operative Capital", on which a re-

turn was based, certain sums of money for the Kerckhoff hydroelectric plant and Bakersfield steam plant. It appears that the steam plant will be in operation on June 1st and that the Kerckhoff development will be in operation on October 1st, 1920. The Commission included a portion of the capital, based upon the part of the year in which the plants would be in operation and from which benefit of use would be obtained. Normally interest during construction is capitalized on new developments until they are put in operation and not afterward, and a utility is entitled to earn upon its property upon it becoming operative. Contentions of petitioners in this connection are unwarranted.

Petitioners also urge that the Kerckhoff development has cost more than it reasonably should due to rushed construction and that this additional charge should not be included, especially as the plant will not be in operation during the period of peak load of the year. The operation of this plant from October 1st on will be of benefit however due to use of storage water by this company and by Southern California Edison Company. We do not conclude that the company should be penalized for attempting to meet the demands for service of its consumers.

Petitioners allege that the Commission erred in finding that there was not a surplus of natural gas available for the development of power. The Commission has re-investigated the record in this matter and confirms its conclusion that the evidence does not show an adequate supply of natural gas to meet the requirements of steam plants prior to the fall of 1919 and since the time that the price of oil commenced to increase. It finds as a fact that there was an actual lack of sufficient gas to meet the demands for gas in the fields and

for delivery to Los Angeles through existing lines during the period just prior to June 1919.

Petitioners urge that the Commission should not allow taxes as an operating expense. Gross revenue taxes of all utilities have consistently been considered as an operating expense not only by the Commission but by Federal authorities in determining net return upon which income tax should be paid.

Petitioners allege that the Commission erred in finding that the rate of approximately 5.97%, which it was estimated would be earned during 1920, was not a fair return under the conditions actually existing, and that in increasing the rate to 8% its action was discriminatory and unconstitutional. It is essential that this utility borrow large sums of money in order to meet the demands for power made upon it, and to borrow that money it is necessary that the company receive sufficient return to make possible its financing even during this period of stress and it is apparent that if applicant is required to pay a higher rate of interest than that which it would earn it will not be able to borrow the moneys necessary to meet the demands and render adequate service.

Petitioners allege that the rates fixed by the Commission will increase the cost of service to agricultural consumers using service from 8 to 12 months from \$4.05 per horsepower per month to \$9.15 and \$9.65 per horsepower per month, depending upon the size. The evidence shows that the average increase in rates for the remainder of the year for agricultural service will be slightly in excess of 15%; that the increased cost of service has been in the form of increased operating expense, depending upon the use of energy rather than upon the size of the installation; that the flat rates formerly in effect were unfair to the consumer using power less than

the average and that consumers using motors continuously were not paying their just proportion of the cost. In a few instances consumers using service for 8 months may be increased from \$4.65 per h.p. per month to a maximum of approximately \$8.30 and \$8.80 per h.p. per month; that on the average the increase in rates to that class of consumers will be to approximately \$6.20 per h.p. per month.

Petitioners have computed the increased cost on the maximum conditions which may exist and under the assumption that the motors will run continuously for 8 to 12 months without interruption, which appears from the record is not likely to happen except in a few instances. Consumers who have been operating on this basis in the past have been receiving service considerably below cost and with the result that the service has been operated at a loss or other consumers have made up the difference.

The rates heretofore set forth in Decision No. 7305 have been fixed for the conditions which will probably exist during the year 1920, a period of reduced hydro-electric power supply and increased price of fuel and labor. Under the proposed rates consumers who can conserve in the use of water will receive the benefit of the reduced cost of service, a condition not possible under the former flat rates.

We conclude, from consideration of the petition for rehearing and reconsideration of the evidence, that the petition should not be granted.

ORDER ON PETITION FOR REHEARING

Kern County Farm Bureau and Board of Supervisors of Kern County having filed a petition for rehearing in the above

entitled proceeding, careful consideration having been given to said petition, the Railroad Commission finds that the former Decision No. 7305 should not be modified.

Basing its order on the foregoing finding of fact and each statement of fact contained in the Opinion of March 23rd, 1920 and in the Opinion which precedes this order,

IT IS HEREBY ORDERED that the petition for rehearing be and the same is hereby denied.

Dated at San Francisco, California, this 19th
day of April, 1920.

Edwin O. Sedgwick

Francis R. DeWitt

H. W. Brundage

Commissioners.