

Decision No. 9017

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

**ORIGINAL**

In the Matter of the Application of  
PACIFIC GAS AND ELECTRIC COMPANY, a  
corporation, for an order of the  
Railroad Commission of the State of  
California to fix just and reasonable  
rates for electric service. (Contin-  
uing original Application No. 5567  
for final order and decision).

Second Supplemental  
Application No. 5567

- ✓ C. P. Cutten, for Applicant
- ✓ George Lull and John J. Dailey, for City and County of San Francisco.
- ✓ Leon Gray, for the City of Oakland
- ✓ Frank V. Cornish, for the City of Berkeley
- ✓ Archer Bowden, for the City of San Jose
- ✓ D. T. Jenkins, for the City of Los Gatos
- ✓ E. H. Armstrong, for the City of Grass Valley
- ✓ F. T. Nilon, for the City of Nevada City
- ✓ Archibald Yell, for the City of Sacramento
- ✓ L. B. Leavitt, C. C. Isaacson and Mr. Wilson, for the City of Vallejo
- ✓ H. P. Hatfield, Secretary of the Chamber of Commerce of Vallejo
- ✓ J. Oscar Goldstein, for City of Chico.
- ✓ T. C. Judkins, for the Town of Emeryville
- ✓ A. E. Bray, for City of Martinez
- ✓ A. J. Carlson, for City of Modesto
- ✓ William N. Graybeil, for City of Turlock
- ✓ C. H. Frey, for California Metal & Mineral Producers' Association
- ✓ John T. York, for City of Napa
- ✓ Mrs. Lydia Wolf, for the California Federation of Housewives' Leagues, Oakland
- ✓ Hector A. Dunn, for the California Federation of Housewives' Leagues, Oakland
- ✓ Messrs. Heller, Powers & Ehrman, by Mr. Ehrman, and C. J. Carlson, for Patterson Water Company
- ✓ Raymond A. Leonard, for City of Oroville
- ✓ J. F. Pollard, for Coast Valleys Gas & Electric Co.
- ✓ L. F. Leurey, for the Sperry Flour Company
- ✓ Robinson & Price, for the California Manufacturers' Association, Alameda Sugar Company, et al.
- ✓ Chickering & Gregory, for the Western States Gas & Electric Company
- ✓ B. S. Crittenden, for the City of Tracy, West Side Irrigation District, Naglee-Burke Irrigation Company and the Riverview Land & Water Company.

- ✓ William M. Abbott, for the United Railroads of San Francisco
- ✓ A. A. De Ligne, for F. H. Harvey of Galt
- ✓ John J. Dailey, Leon E. Gray and Archer Bowden, for Daly City, Morgan Hill, Petaluma, San Leandro, Stanford University, Redding, Alviso, Pacific Grove, Colusa, Healdsburg, Marysville, Hamilton City Chamber of Commerce, Oakdale, Woodland, Pittsburg, Emeryville, Red Bluff, King City, Orland, Calistoga, Arbuckle Chamber of Commerce, Vacaville, Martinez, San Mateo, Redwood City, Santa Rosa, Corning, Placerville, Auburn, Rio Vista, Larkspur, Turlock, Watsonville, Burlingame, Ross, Sonora, Walnut Creek, Corte Madera, Piedmont, Dunsmuir, Mountain View, Albany, Antioch, Rocklin, Pinole, Town of El Cerrito
- ✓ F. S. Brittain, for California Farm Bureau Federation.
- ✓ Morrison, Dunne & Brobeck, by Herman Phleger, for Santa Cruz Portland Cement Company and Pacific Portland Cement Corporation.
- ✓ H. F. Chadbourne and John S. Partridge, for Cowell Portland Cement Company
- ✓ R. G. Clifford, Engineer for the Association of Reclamation Districts
- ✓ Mrs. W. T. Cleverdon, for California State Housewives' League
- ✓ Mrs. May Larkin Marston, for Alameda Housewives' Branch of the State Housewives' League
- ✓ L. B. Gurney, for Yuba-Sutter Irrigators and Brown Valley Irrigation District
- ✓ W. D. Harrington, Engineer for West Side Irrigation District, Naglee-Burke Irrigation District and Kasson Irrigation District
- ✓ William E. Harvent, for State Housewives' League
- ✓ H. W. Crozier, for James Mills Orchards Corporation and Esperanza Land Corporation

ROWELL, Commissioner.

### O P I N I O N

Pacific Gas and Electric Company, hereinafter referred to as applicant, in this second supplemental application requests that the temporary surcharge of 15% authorized by this Commission in its Decision No. 7823, dated June 30, 1920, be continued pending the final fixing of definite rates. This surcharge was originally authorized for a period of nine months, ending April 10, 1921. In the course of the hearings on this second supplemental application it became apparent

that all the evidence could not be submitted before the date at which the surcharge would automatically terminate. The evidence which had been submitted at that time was not such as to justify the continuation of the full amount of the surcharge nor its entire removal and the Commission by Decision No.8835, dated April 9, 1921, reduced the surcharge from 15% to 10% and continued in effect the reduced surcharge pending a final decision on the supplemental application, with the provision that any further reduction in the surcharge should be retroactive to April 10, 1921.

Hearings were continued, the proceeding was submitted on May 20, 1921 and is now ready for decision on the subject of the continuation of the surcharge.

As is customary, it was stipulated that the evidence in the so-called "main case" together with records in former proceedings involving Pacific Gas and Electric Company before this Commission and the various official records on file with the Commission might be considered in evidence. Following the submission of evidence a reduction of 25 cents per barrel in the price of oil occurred, which if continued in effect will considerably reduce the cost of operation. At the time of oral argument on May 20 it was stipulated that advice of the reduction of oil received by the Commission might be considered in evidence.

Briefs in the form of written or oral argument were submitted by C. P. Cutten for applicant, F. S. Brittain for California Farm Bureau Federation and J. J. Dailey on behalf of the municipalities.

This is primarily a surcharge proceeding and must be treated as such. The main proceeding, which involves the fixing of definite rates and the final basis of rate determination, has not been completed and from present in-

dications will not be completed before the last of this year. While many of the finer points raised by protestants in the course of the hearings are pertinent to a general consideration of rates and to the larger investigation in connection with the case, it must be remembered that the consideration of the surcharge is directed to the maintenance of reasonable rates and earnings pending the final decision.

Under similar circumstances in the past the Commission has provisionally accepted the net earnings of the pre-war period checked against such evidence as was available relative to the valuation of the properties as the measure of a fair return on the property then existing. Without awaiting the completion of a long and detailed valuation and analysis, applicant's rates have been temporarily adjusted to maintain the return on property existing in 1917 and to allow a fair return on property added since that time. Applicant has presented its case along the same lines and there is no apparent reason for any change. It will of course be understood that findings herein made are for the purpose of temporary rates only and are in no way to be considered as establishing precedents, either as to the larger phase of this case or as to any other matter.

Many of the issues involved in the so-called "main case" are most important and will require careful study by the Commission and will doubtless be the subject of careful and lengthy consideration by the various interested parties.

Applicant urges for consideration of the Commission failure on its part to earn the return found reasonable in the past and that the continuation of the 15% surcharge is necessary to maintain the net earnings of the company to a level heretofore found reasonable. Protestants contend

that the evidence is conclusive that with the discontinuance of the surcharge on April 10 the net earnings of applicant for the year 1921 will be sufficient. It has not been the practice of this Commission in surcharge or general rate proceedings to fix rates for calendar years or to reimburse the utility, especially in surcharge proceedings, for lack of earnings in preceding periods. This matter being a subject for consideration in the main proceeding should, as far as possible, be left to the main case for more careful consideration than can be given it in connection with the present proceeding.

I must conclude that if the lack of earnings below or the excess of earnings above what has been considered reasonable return prior to April 10, 1921 is to be a subject for consideration, that consideration must be given in the main proceeding. The question for the Commission to determine herein is, what surcharge, if any, is justified on and after April 10, 1921. The time required to reach a final conclusion cannot be accurately foretold and to avoid undesirable fluctuations in rates, consideration will be given to average conditions as reflected in the estimates for the year 1921 rather than to such conditions as are obviously of a temporary nature. In this I refer primarily to hydro-electric power supply and the price of oil, which latter during the first part of this year has been 25 cents per barrel higher than at present.

In determining whether or not the rates to be charged from and after April 10, 1921 shall include a surcharge, it appears reasonable that average water power conditions and the present price of oil should be used, applied to an entire twelve months period.

In support of its request, applicant presents figures showing that for the years 1918, 1919 and 1920 the properties now incorporated in the system of Pacific Gas and Electric Company have failed to earn the amounts which this Commission has in various proceedings found reasonable and that the estimated earnings for the year 1921 with the surcharge of 15% in effect for the entire year will not result in a return in excess of that which applicant maintains is reasonable. These figures are summarized in the following table:

TABLE NO.1

CONDENSED OPERATING STATEMENT

PACIFIC GAS AND ELECTRIC COMPANY.

1920 Actual - 1921 Estimated  
with 15% surcharge for entire year.

	<u>1920</u> <u>Actual</u>	<u>1921</u> <u>Estimated</u>
<u>Gross Revenue:</u>		
From Consumers	\$21,553,632	\$24,543,170
Inter-department	387,849	440,223
Total	<u>\$21,941,481</u>	<u>\$24,983,393</u>
<u>Operating Expenses:</u>	\$	
Maintenance	\$1,770,045	\$ 2,240,342
Operating(excl. of Fuel and purchased power)	3,190,015	3,520,365
Operating(Fuel) (Purchased Power)	4,550,335	3,834,263
Gen'l & Administrative	693,642	928,299
Taxes	660,929	725,000
Insurance Reserve	1,697,879	2,514,041
Uncollectible Accounts	135,042	290,000
Total	61,734	78,000
	<u>\$12,759,521</u>	<u>\$14,130,310</u>
<u>Deductions:</u>		
Year 1920 - Maintenance Re- serve Deficit		\$ 115,651
State taxes on 1920 revenue not provided for in 1920 expenses due to increase in tax rate		<u>409,079</u>
		524,730
Net Revenue available for depreciation and return	9,181,860	10,328,353

Applicant's estimate of reasonable net for depreciation and return for 1921, based on the Commission's findings in the former surcharge decision is summarized as follows:

TABLE NO. II  
PACIFIC GAS & ELECTRIC COMPANY'S ESTIMATE  
REASONABLE NET FOR DEPRECIATION AND RETURN

1 9 2 1

Depreciation and Return found reasonable in previous decisions:

Decis. 5519 - Pacific Gas & Electric Co.		\$6,415,960
" 6285 - Northern California Pr. Co.		639,947
" 5867 - Sierra & San Francisco Pr. Co.		1,074,487
		8,130,394

Net additions to Operative Property from dates of decisions		\$15,135,165
Increase in Working Cash Capital		623,469
" " Materials & Supplies		1,473,000
		\$17,231,634

Additional Allowance for Return		
9% on \$17,231,634		\$1,550,847
Additional Allowance for Depreciation		
3% on \$15,135,165		454,055
Total Required for Depr. and Fair Return		\$10,135,296

Applicant shows from the above that its estimated net earnings for 1921, with the surcharge in effect for the entire year, would be only \$192,051 in excess of a reasonable return based on the Commission's previous findings.

Applicant's estimates of revenue, expense and allowable return were subject to exhaustive cross-examination, special attention being given to the estimates of maintenance, fuel oil and purchased power, taxes and insurance reserve, and to the deduction proposed by it for maintenance reserve and taxes on 1920 revenue.

In comparison with the above estimate Attorney J. J. Dailey, representing the municipalities, submitted a

set-up for 1921, summarized in the following table, which in addition to certain changes in figures due to conclusions as to evidence, takes into account the changed price of oil effective May 13 and the probable purchase of power from Great Western Power Company not included in the original estimate of the company.

TABLE NO. III

PACIFIC GAS AND ELECTRIC COMPANY  
Electric Department

Year 1921 (Estimated)  
With 15% Surcharge up to April 10, 1921  
(Municipalities Estimate)

Gross Revenue	\$22,628,961
Expenses:	
Maintenance	2,040,000
Operating (excl. of Fuel and Purchased Pr.)	3,520,365
Operating - Fuel Oil	2,940,510
Purchased Power	1,333,299
General and Administrative	665,000
Taxes	1,742,627
Insurance Reserve	85,000
Uncollectible Bills	78,000
Total Expense	\$12,404,801
Net for Depreciation and Return	10,224,160
Amount suggested as reasonable for De- preciation and Return determined from cities' estimate	9,737,971

The Company's estimate of revenue for the year 1921 does not allow for a growth of business equal to that experienced in previous years. The lesser growth is attributed to a reduction in industrial activities, less agricultural pumping on account of reduction in rice acreage and generally greater precipitation. A year's revenue under present conditions is difficult of accurate estimate or check. I believe from the evidence it is reasonable



to accept applicant's estimate for this proceeding, which is:

Revenue 1921: (On the basis of)

15% surcharge up to April 10th . . . . .	\$22,628,961	7
15% " for entire year . . . . .	24,983,393	-

Revenue from Basic Rates:

General Business . . . . .	21,341,887
Inter-department Revenue . . . . .	382,803
	<u>\$21,724,690</u>

Considerable question was raised by counsel for protestants regarding applicant's actual and estimated expenditures for the maintenance of its system. The estimate presented for the year 1921 is \$2,240,342, of which the evidence shows \$133,000 is for work which was originally planned to be done in 1920 and for which allowance was heretofore made. Allowance for maintenance of \$2,040,000 per annum was made in Decision No. 7823 and as the rates were based upon the year commencing April 1920 it does not appear reasonable to include that amount in the estimate herein, same having been allowed for in the surcharge charged up to April 1921. The same conclusion must apply to the amount of \$115,651 expended during the last six months of 1920 in excess of the monthly reserve allowance of \$170,000. As pointed out, maintenance work estimated at \$133,000 was deferred from 1920 to 1921 and it would appear reasonable to deduct \$133,000 from the estimate of \$2,240,000.

The contention is made that part of the expenditure contemplated for the coming year is for work which should have been done in the past and which was deferred on account of the difficulty in securing labor, material or funds. An examination of the expenditures for maintenance work on the various properties now a part of applicant's system shows that for the

years 1918, 1919 and 1920 more money was expended than the amounts which were allowed by the Commission in fixing rates. It is, therefore, apparent that the inclusion in the present estimate of any items of deferred maintenance will require consumers to make up only amounts which have not heretofore been included in rates and that no duplication of charges for maintenance work will result.

The question of relative cost of maintenance work in the years 1920 and 1921 was the subject of lengthy cross-examination, counsel for protestants taking the position that there would be a marked decrease in the unit costs of labor and material. The matter was finally referred to a committee of engineers, one appointed from the engineering staff of the Commission, one chosen by counsel representing protestants and one chosen by the Company. This committee submitted a report showing that as far as the system of Pacific Gas and Electric Company is concerned the unit cost of maintenance work will for all practical purposes be the same in 1921 as in 1920. Altho there has been some decline in both labor and material costs, the reduction in 1921, it is estimated, will not more than offset the increases which occurred during 1920.

During the past year the Commission has received many complaints regarding the quality of service received by applicant's consumers and investigation has usually shown these complaints to be caused by deficient maintenance or insufficient capacity. Adequate service can be given only if facilities are properly maintained, and the deterioration in the quality of service that must surely follow an insufficient allowance for maintenance is unquestionably without justification in the consequent slight reduction in the total cost of operation. Pro-

testants have been insistent in the demand for the utmost economy, but it is not to be assumed that the consumers of this utility would demand that such economy be carried to the point of impaired service, reduced efficiency and consequent future waste. It is the duty of this Commission to see that the property of this utility is properly maintained and that adequate financial provision is made for such maintenance.

In estimating reasonable expenditures for the ensuing year I have increased the 1920 allowance to \$175,000 per month, or \$2,100,000 for the year. Pacific Gas and Electric Company will be expected to set this amount aside each month for maintenance commencing as of April 1, 1921, and any portion not expended is to be kept in reserve for maintenance in the future.

Applicant has estimated a total hydro-electric production for the year 1921 of 1,032,800,000 k.w. hrs., the purchase of 158,000,000 k.w. hrs. and the generation by steam power of the remaining 399,200,000 k.w.hrs. required to meet the estimated total demand for 1,590,000,000 k.w.hrs. for the year. Of the hydro-electric output 70,200,000 k.w.hrs. is expected to come from new plants to be brought in during the year and 962,600,000 k.w.hrs. from existing plants, which under average conditions of water supply could produce according to present estimates but 939,000,000 k.w.hrs. It is highly desirable that the rates of this company be placed on a stable basis, not only in the so-called "main case", but as far as possible in the surcharge case as well, and to avoid a repetition of past increases of rates brought about by deficient water supply consideration will be given to average conditions rather than to unusually favorable conditions which may exist during the calendar year 1921. The reasonable operating expenses as determined herein are based on the average hydro-electric output to be expected.

From the evidence in the application of Great Western Power Company of California for a continuation of its surcharge,

hearings in which covered the same period as those in this proceeding, it appeared that Great Western Power Company would have available a surplus of hydro-electric energy. Negotiations between the companies which had been pending for several months were promptly closed on an order from former President Devlin who was then presiding. The arrangement thus consummated will result in the purchase by Pacific Gas and Electric Company of an additional amount of hydro-electric power, estimated by the Commission's Assistant Chief Engineer, Lester S. Ready, at approximately 70,000,000 k.w.hrs. on the year's basis.

The original estimates submitted by the companies show a considerable less figure. It would not in any way appear impossible, however, for Pacific Gas and Electric Company to take the amount estimated above if steps are immediately taken by both companies to make the necessary interconnections. Both utilities agreed to take all reasonable steps and such action is expected in full by this Commission.

This purchase of power will result in a conservation of approximately 310,000 bbls. of oil during the year and result in a reduction in the estimated cost of operation by Pacific Gas and Electric Company of approximately \$75,000 per annum. The estimate of fuel cost for the year 1921 as set up by the Company when revised for the change in the price of oil and the purchase of power from the Great Western Power Company will be reduced to \$2,940,510. On the basis of the present price<sup>of oil</sup> and average water<sup>power</sup>/conditions the cost would be \$3,000,000, making a net saving of \$435,000. The rate for the power to be purchased from Great Western Power Company as originally proposed by Mr. Ready in his memorandum to the Commission was based upon a consideration not only of the cost of the production of that power, but of the

price of oil effective prior to the reduction of 25 cents per barrel made on May 13, 1921. Altho the cost of producing the power by Great Western Power Company, if full return is allowed upon its investment, exceeds the price recommended, it is apparent, as suggested by Mr. Ready, that the price must be such as to encourage the purchase by Pacific Gas and Electric Company. Necessarily the effect of the change in price of oil will be to considerably reduce the price which Pacific Gas and Electric Company can economically pay for the power. The estimate herein will be based upon an average rate of approximately 6.7 mills per k.w.hr. instead of 7.5 mills as heretofore estimated. A reduction of eight-tenths of one mill per kilowatt hour will also be made in the cost of power purchased from San Joaquin Light and Power Corporation on and after June 1, 1921 on account of the effect of the reduction in oil price to Pacific Gas and Electric Company. The cost of purchased power should be increased to \$1,360,000 to cover the increased purchase from Great Western Power Company as estimated and to reflect the change in oil price. The total saving due directly and indirectly to the decrease in the price of oil and the purchase of power from the Great Western Power Company is on an average annual basis approximately \$610,000.

Altho subject to some question by protestants I am convinced that applicant's estimate of general and administrative expense is not unreasonable to be allowed in connection with this proceeding.

The company's estimate of taxes was the subject of extensive cross-examination and argument, mainly directed to the method of estimating the state taxes chargeable to the operations during the year. The company's estimate is on the "accrual" as distinguished from the "payment" basis. The former method has been follow-

ed by the Commission since 1913 and consists in allowing an amount for taxes equivalent to the tax rate in any given year times the gross revenue for that year. Protestants urged that this method allows a greater amount than will be paid during the year and, if the gross revenue steadily increases from year to year, an increasing balance unpaid to the state will result which will never be an actual expense.

The present method of taxation applicable to corporations such as Pacific Gas and Electric Company is to a certain extent a hybrid between an advalorem and income tax. In legal theory it is a property tax, but the measure of the tax is computed on a gross income basis. The taxes which become a lien upon the company's property in March 1921 are computed at  $7\frac{1}{2}\%$  of the gross revenue received from the business for 1920. It is, therefore, apparent that, barring a modification of the rate of taxation downward or a complete doing away with the present basis of taxation, the gross revenue in one year places an obligation upon the company to pay  $7\frac{1}{2}\%$  of that amount to the state during the succeeding fiscal year. Where a company's business continually increases, as applicant's has done, computations will show that the amount due in July of each year and which becomes a lien upon the property in March of that year is less than the amount which would be estimated on an accrual basis for the same period, so that a fund will accumulate in any such reserve.

Attorney F. S. Brittain, for the Farm Bureau Federation, urges that applicant as a result of the method used collected a very large sum in the past in excess of that necessary and that an unnecessary burden on consumers has resulted. An analysis of the facts leads to the conclusion that in whole applicant has not during the period when rates have been determined by this Commission for

the company's entire system, earned in full the return found reasonable by the Commission. It follows, therefore, that irrespective of this consideration, practical injustice to the consumers has not resulted in the past.

Applicant urges that it must be reimbursed for \$409,000, being the difference between 7½% of its 1920 revenue and 5.6% of the same, which it contends it did not accrue but must pay out during the present year. I do not find that the Commission has at any time in the past contemplated that a utility should accrue and hold from one year to the next the taxes computed for that year. The Commission's basis has been in determining rates to compute taxes upon the revenue from that year, the company paying out for that year the actual taxes, the balance, of course, holding over to the ensuing year. Applicant's claim for \$409,000 should not be allowed.

I cannot, however, agree with protestants that the installments actually paid in any calendar year represent the correct amount to be allowed in determining rates. In the determination of working cash capital of a utility the Commission does not include taxes as a part thereof and the company should, therefore, accrue its taxes before the same are paid; also, as the taxes due in July become a lien on the property in March of the same year, it is apparent to me that the state taxes to be allowed should at least be the amount due and payable on the first Monday in July even tho the second installment is not actually paid until the first of the following year. For this proceeding I recommend that the state taxes to be allowed be based upon the amount which becomes a lien upon the company's property on the first Monday of March of this year, or 7½% of 1920 gross revenue. Like all other determinations in this decision, this conclusion is of course not a commitment nor a binding precedent on the action of this Commis-

sion in the decision of the final case or of other cases involving the same point. The other taxes which are to be considered as part of the operating expenses of applicant are mainly Federal income tax and local franchise taxes which are applicable to the year in which the income is received. The taxes to be allowed as expenses chargeable to the operations of 1921 are, therefore, as follows:

State taxes, 7½% of 1920 gross revenue . . . . .	\$1,611,900
Capital stock and miscellaneous taxes, incl. County Franchise . . . . .	52,000
Federal income tax based upon net income found reasonable . . . . .	<u>550,000</u>
Total . . . . .	\$2,213,900

Applicant estimates the proper amount to be set aside to insurance reserves during 1921 at \$290,000. Compared with this is the estimate of \$80,000 presented in connection with the application which resulted in the granting of the present 15% surcharge and the actual amount of \$135,042 set up on the books for 1920. Witnesses for applicant explaining the method of arriving at the figure of \$290,000, described a study of the increase in insurable capital, of the increase in the cost of replacing property in event of its destruction and of the premium rates of insurance companies. It is evident from this testimony, as well as from the figures themselves, that a considerable change has been made in the basis of this charge. The purpose of this surcharge proceeding is to adjust rates temporarily to care for marked changes in conditions pending the conclusion of the more exhaustive investigation which is now under way. Without finally passing on the reasonableness of applicant's claim, it seems that it is properly a subject for the larger investigation, and that a reasonable figure for use in



the present consideration will be \$120,000, which is comparable with the actual expenditures for the past year.

An examination of the details of the additions to operative property on which applicant claims a return of 9% and an allowance of 3% for depreciation shows in excess of \$4,000,000 for such items as land, ditches, generating machinery, etc., on which 3% annuity for depreciation is in excess of that normally allowed by the Commission. This figure has been used by this Commission in previous decisions in similar cases, but only where additions were principally to distribution system. The application of a more rational percentage for depreciation to these items results in a reduction of at least \$115,000 per year, below the company's estimate of \$454,055 to cover additions since the determination of the original surcharge cases in 1918 and below the increase over the allowance of 1920 on the company's basis of \$259,055.

The customary allowance in capital for materials and supplies properly covers only stores kept on hand for operating purposes, and materials to be used in capital additions to plant should not be included. The evidence shows, however, that the figure here presented by applicant includes all materials and supplies on hand, except those to be used on the large construction jobs handled by a special force. A reasonable allowance for this item is \$2,400,000 and the increase from the sum considered in previous decisions is \$1,050,000 instead of \$1,473,000 as proposed.

The figures for additions to capital while in general correct are apparently not entirely accurate, the evidence showing that the effect of probable abandonments of property during 1921 has not been considered. Against this omission must be reckoned the omission from the estimates of expenditures, which cannot be foreseen but which will nevertheless have to be made.

It is apparent that the figures cannot be used as the basis of precise calculations but they may reasonably be used in this surcharge proceeding.

Money invested since 1918 has necessarily been borrowed at abnormal interest rates and a return of nine percent on recent additions to property, as distinguished from the older properties, cannot be considered excessive and has been allowed in other decisions of this Commission for similar additions. In addition to providing a fair return the net revenue must be sufficient to permit the setting aside of an annuity to cover the depreciation of property. The reasonable requirements for depreciation and return may be summed up as follows:

TABLE NO. IV.

Net Return found reasonable in Decision 7823 . . . . .		\$7,468,460
Additional Capital Invested to 6/30/21:		
Net Additions to Operative Property	\$15,135,165	
Increase in Working Cash Capital	600,000	
Increase in Materials & Supplies	1,050,000	
	<u>\$16,885,165</u>	
Less amount considered in Decision 7823	6,500,000	
	<u>\$10,385,165</u>	
Return at 9% . . . . .		<u>916,665</u>
Total Return . . . . .		\$8,385,125
Depreciation as allowed in Decision No. 7823 . . . . .	\$ 1,450,000	
Additional Allowance to cover additions to property . . . . .	<u>144,055</u>	
Total Depreciation . . . . .		<u>\$1,594,055</u>
Total for Depreciation and Return . . . . .		\$9,979,180

To earn the net revenue shown applicant must evidently receive a gross revenue equal to the sum of its operating expenses

and net revenue. The resulting set up of Revenue and Expenses, including ~~taxes on the gross revenue~~ found necessary is shown in Table No. 5.

TABLE NO. V  
ESTIMATE OF REASONABLE OPERATING EXPENSES  
PACIFIC GAS AND ELECTRIC COMPANY  
1921 Basis.

Gross Revenue (Existing Basic Rates)	
From Consumers . . . . .	\$21,341,887
Inter-department . . . . .	382,803
Total . . . . .	<u>\$21,724,690</u>
Operating Expenses:	
Maintenance . . . . .	2,100,000
Operating (excl. of Fuel Oil & Purch. Pr.) . . . . .	3,520,000
Operating - Fuel Oil . . . . .	3,000,000
Purchased Power . . . . .	1,360,000
General and Administrative . . . . .	725,000
Taxes . . . . .	2,213,900
Insurance Reserves . . . . .	120,000
Uncollectible Accounts . . . . .	78,000
Total . . . . .	<u>\$15,116,900</u>
Net Revenue Available for Depreciation and Return (Without Surcharge) . . . . .	\$8,607,790
Estimated Reasonable Net Revenue for Depreciation and Return . . . . .	\$9,979,180
Deficit below Reasonable . . . . .	\$1,371,390

The above estimated deficit below a reasonable return is equivalent to 6.35% of the basic rates, from which it may readily be concluded that under present conditions of labor and supply costs and general operations if the utility is to be authorized rates sufficient to yield it the return found reasonable a surcharge of that amount is necessary.

Applicant is actively engaged in the development of additional power and the extension of its system to meet the demands of the territory served.

If this increasing demand is to continue applicant, even in a period of temporary depression, must be in a financial position to obtain the necessary funds and if this can be accomplished by reasonable rates same should be done in order that the Company may function continuously and render adequate service and be in a position to meet the demands on its system, develop power and serve economically. This company was not allowed to earn more than a reasonable return during periods of general increased profits in other lines of industry and its position should if possible be maintained at this time. The maximum average increase in rates on applicant's system authorized by this Commission has been approximately 32% over the rates in 1916 and with the continuance of the surcharge herein found necessary this percentage increase will be reduced to a total average of 22 percent. When it is considered that the price of oil has increased 150 percent and the cost of other commodities used in the operation of such a utility is in most instances at least 50 percent in excess of pre-war costs, it would not appear that the surcharge herein authorized is in any way unreasonable to applicant's consumers even in this period of depression.

In view of the fact that the surcharge herein authorized is to become effective on and after April 10, 1921, that the present tendency is for reducing rather than increasing cost of operation and that the period of the surcharge covers a time when greater reduction may occur than during the calendar year 1921, I recommend that the surcharge to be made effective be 6%.

I recommend the following form of Order:

O R D E R

Pacific Gas and Electric Company having filed its second supplemental application for authority to continue the surcharge of 15% heretofore authorized in Decision 7823 pending final determination of electric rates on its system, hearings having been held, the matter being submitted and now ready for decision, and the Commission having heretofore in its Decision No. 8835, dated April 9, 1921, reduced the 15% surcharge to 10% and having ordered that all sums collected upon said 10% surcharge be impounded by Pacific Gas and Electric Company subject to the order of this Commission in its final decision in this second supplemental application No. 5567,

The Railroad Commission hereby finds as a fact that a surcharge of 6% applied to the bills for electric service based upon the regular schedules and basic charges as distinguished from the existing surcharge of 10% now in force and effect is a just and reasonable surcharge to be charged and collected for electric service by Pacific Gas and Electric Company.

IT IS HEREBY ORDERED that Pacific Gas and Electric Company be, and the same is, hereby authorized to charge and collect in addition to its regular charges for electric service, exclusive of the present 10% surcharge, a surcharge of 6%, the same to be effective for metered service based upon all meter readings taken on and after June 10, 1921, and for flat rate service ~~for service~~ rendered on and after June 1, 1921.

IT IS HEREBY FURTHER ORDERED that in pursuance with the provisions of this Commission's Decision No. 8835 Pacific Gas and Electric Company be directed to refund or credit to consumers receiving electric service from its system the difference between the 10% surcharge heretofore authorized in this Commission's De-

cision No. 8835 and the surcharge of 6% herein authorized upon all bills rendered for metered service based upon regular meter readings taken on and after April 10, 1921 and prior to June 10, 1921, and for flat rate service rendered on and after April 1, 1921 and prior to June 1, 1921.

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 27<sup>th</sup> day of May, 1921.

H. J. [unclear]  
H. J. [unclear]  
Dwight Martin  
Charles H. [unclear]  
[unclear]  
Commissioners.