

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

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In the Matter of the Application of }  
GREAT WESTERN POWER COMPANY OF CALI- } Supplemental Application  
FORNIA for an order authorizing in- } No. 5585  
crease in rates. }

- ✓ Guy C. Earl and Chaffee E. Hall, for applicant.
- ✓ R. N. Wolfe, for City of Pittsburg.
- ✓ Archibald Yell, for City of Sacramento.
- ✓ George Lull and John J. Dailey, for City of San Francisco.
- ✓ Leon Gray, for City of Oakland.
- ✓ John T. York, for City of Napa
- ✓ Frank V. Cornish, for City of Berkeley.
- ✓ W. J. Locke, for City of Alameda
- ✓ D. J. Hall, for City of Richmond
- ✓ I. J. Truman, for the Engels Copper Mining Company.
- ✓ F. S. Brittain, for California Farm Bureau Federation.
- ✓ John J. Dailey, Frank V. Cornish, Leon E. Gray and Archer Bowden, for Cities of 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.
- ✓ R. G. Clifford, for the Association of Reclamation Districts.
- ✓ H. F. Chadbourne, and John S. Partridge, for Cowell Portland Cement Company.
- ✓ Jesse H. Steinhart, for San Francisco and Sacramento Railroad Company.
- ✓ Chas. W. Slack and Edgar T. Zook, for Natomas Consolidated Company.

ROWELL, Commissioner:

## O P I N I O N

Great Western Power Company of California, hereinafter referred to as applicant, in this supplemental application requests that the temporary surcharge of 15% heretofore authorized by this Commission in its Decision No. 7824, dated June 30, 1920, be continued pending the final fixing of definite rates by this Commission. Applicant alleges in support of its request that the continuation of the present surcharge is necessary to give it the return found to be reasonable as set forth in this Commission's Decision No. 7824, plus a reasonable return upon the net additions and betterments to operative property made since that time.

The 15% surcharge heretofore referred to was authorized by this Commission for a period of nine months ending April 10, 1921. Delay in filing this supplemental application coupled with extended cross-examination of applicant's witnesses made it impossible to complete the hearings by April 10, 1921, and, after consideration of the evidence then before it, the Commission on April 9, 1921, issued its Decision No. 8836 reducing the surcharge from 15% to 10% and continuing in effect the reduced surcharge with the provision that any further reduction might be retroactive to April 10, 1921.

After further hearings were held and additional evidence introduced the matter was submitted on May 21, 1921, and is now ready for decision on the continuation of the surcharge. As is customary, it was stipulated that the evidence in the so-called "main case" together with records of former proceedings before this Commission involving Great Western Power Company of California and affiliated companies, and the various official records on file with the Commission, might be considered in evidence.

Following the close of the submission of evidence a reduction of 25 cents per barrel in the price of fuel oil occurred, which, if continued, will somewhat reduce applicant's cost of operation. At the time of oral argument on May 21 it was stipulated that advice of the reduction of oil price received by the Commission might be considered in evidence.

Briefs in the form of written or oral arguments were submitted by Chaffee E. Hall for applicant, F. S. Brittain for California Farm Bureau Federation, J. J. Dailey on behalf of certain municipalities, and I. J. Truman for the Engels Copper Mining Company.

A complete valuation of the property and analysis of the finances and operations of this utility are now being made by this Commission, but will probably not be completed prior to the end of this year. At the time the surcharge was first authorized pre-war earnings were checked against available information and accepted as a measure of the fair return on the property then existing. The surcharges authorized have been based upon continuing this same return on existing properties and the addition of a fair return on the properties added since. The same procedure will be followed in this instance. It is, of course, understood that findings herein made are for the purpose of the temporary rates only and are in no way to be considered as precedents either as to the larger phase of this application or as to any other matter.

It is urged by applicant that the continuation of the 15% surcharge pending the final determination of rates is necessary to maintain the net earnings of the company to a level heretofore found reasonable. In general protestants urged that considering the calendar year 1921, in which a 15% surcharge has been applicable for 3 months and 10 days,

no surcharge is necessary for the remainder of the period. It has not been the practice of this Commission in surcharge or general rate proceedings to fix rates for a given calendar year 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 proceeding for more careful consideration than can be given it in connection with the present proceeding.

This Commission, in its decision No. 9017 in Application No. 5567, this day decided, in determining whether or not a surcharge should be continued on and after April 10, 1921, on Pacific Gas and Electric Company's system, has based its conclusions upon a consideration of the cost of operation, under conditions of average water supply and present cost of fuel oil. This same procedure will be followed herein, <sup>The last surcharge was fixed</sup> for the period ending April 10, 1921, and the consideration of the surcharge herein will be for the period commencing at the end of that surcharge period. To this end consideration will be given to a full year of which 1921 is typical rather than to unusual favorable or unfavorable conditions which may exist.

In support of its application Great Western Power Company <sup>of California</sup> presented a number of exhibits setting forth its estimated revenue and expenses for the year 1921, together with an estimate of the additional capital invested in its Caribou power plant and transmission line and its general transmission and distribution system which would be operative for the year 1921, from which it concludes that if the 15% surcharge be continued thruout the year the net revenue after depreciation will not be greater than a reasonable return upon its operative property. The following table, being applicant's exhibit A-R, sets forth the reported revenues and expenses for the year 1920 and

applicant's estimate for the year 1921, assuming the continuation of the surcharge for the entire year:

TABLE NO. 1

CONDENSED STATEMENT OF OPERATIONS  
GREAT WESTERN POWER COMPANY OF CALIFORNIA

1920 Actual - 1921 Company's Estimate  
Ex. A - R.

	<u>1920</u> <u>Actual</u>	<u>1921</u> <u>Estimated</u>
<u>Income</u>		
Electric	\$ 5,411,368	\$6,144,557
Steam Heat	292,225	325,000
Other	1,928	2,000
Water Sales - Net	99,188	75,000
Total	<u>5,804,709</u>	<u>6,546,557</u>
<u>Expense</u>		
Production	\$ 1,212,341	\$ 888,800
Transmission	137,924	137,700
Distribution	338,978	316,300
Steam Heat	92,069	92,000
Commercial	194,090	245,000
General and Miscellaneous	137,020	178,000
Rent	23,123	23,000
Taxes	451,436	570,000
Uncollectible Electric Bills	15,000	12,000
Valuation Expense	15,000	17,500
Protection of Property		60,000
Depreciation (as set up)	360,000	360,000
Total	<u>2,976,981</u>	<u>2,900,300</u>
Net Revenue	2,827,728	3,646,257
Interest on New Capital		1,147,077
Balance, comparable with net revenue for 1920		2,499,180
Net Revenue for 1920		<u>2,827,728</u>
Difference		328,548

Applicant in its oral argument contends that it is entitled to the full allowance estimated by the Commission in Decision No. 7824 on the basis of 1920, plus 11% per annum for depreciation and return on additional capital, mainly in the Caribou plant, which it estimates will be operative during the year 1921. This total it sets up as \$3,797,077, ex-

clusive of the depreciation allowance of \$360,000 heretofore made.

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 from evidence, takes account of the change in price of oil effective May 13, 1921 and the probable sale of power to Pacific Gas and Electric Company as estimated by the Commission's engineers, which was not in full included in the original estimate of the company:

TABLE NO. II  
GREAT WESTERN POWER COMPANY OF CALIFORNIA  
CONDENSED OPERATING STATEMENT  
1921 Estimate,  
Revenue with 15% Surcharge up to 4/10/21.  
(Municipalities Estimate)  
Summarized.

Revenue

Electric Revenue	\$5,366,820
Steam Heat	325,000
Water Sales	75,000
Other Sales	2,000
	<u>5,768,820</u>
Estimate Sales Pacific Gas & Electric Co.	455,000
	<u>6,223,820</u>

Expense

Production (Less reduction in oil price of 25% per bbl.)	\$ 854,275
Transmission	137,700
Distribution	316,300
Steam Heat	92,000
Commercial	215,000
General	148,735
Rent	23,000
Taxes (Chargeable to Operating)	546,000
Uncollectible Bills	12,000
Valuation Expense	17,500
Protection of Property	60,000
Total Expense	<u>2,422,510</u>
Net for Depreciation and Return	3,801,310
Former Allowance for Depreciation	360,000
Net	3,441,310

In several instances Mr. Dailey accepted certain of the company's estimates for purposes of his argument without agreeing that the same were entirely justified by the evidence, desiring apparently to show that even accepting many of applicant's estimates in his opinion no further surcharge was necessary. He pointed out that the net of \$3,441,310 estimated would be not to exceed \$20,000 below a reasonable return on the property which might be considered operative.

Applicant's estimates were subject to extensive examination by both the Commission and attorneys for protestants, special reference being made to applicant's estimates of revenue, production expense, maintenance of property, certain items of commercial and general expense, and to the amount of property which would be operative during 1921.

The estimate of revenue submitted by applicant was supported by minor exhibits showing a general falling off of certain classes of business as compared with the year 1920, and explained by testimony to the effect that a temporary depression in business had reduced applicant's industrial sales. Applicant is subject to a greater percentage reduction in its sales due to economic depression than is Pacific Gas and Electric Company because a larger percentage of its revenue is derived from industrial and manufacturing service. The temporary depression existing makes difficult the correct estimating of applicant's revenue. Applicant's General Sales Manager has apparently estimated sales after fairly careful study of conditions and it would appear, in view of his general accuracy in the estimate for 1920, that his figures might be reasonably depended upon. Analysis of the actual records for the first months of this year show in general a greater depression than estimated for the entire period. As the surcharge period should not continue for more than twelve months at the most,

during which probable complete recovery from the depression may not occur, the estimate presented will be accepted for this proceeding.

The estimated revenue from the regular business of applicant ~~XXXXXXXXXXXXXXXXXXXX~~ for the year 1921 based upon the rates exclusive of any surcharge for the entire year is \$5,150,000. Applicant estimated in its exhibits a total revenue from the sale of surplus power to Pacific Gas and Electric Company of \$200,000. In accordance with an agreement reached between the companies during this proceeding Pacific Gas and Electric Company agrees to purchase from applicant ~~XXXXXXXXXXXXXXXXXXXX~~, at a rate to be determined by the Commission, all surplus power with which it can supplant steam produced power. Assistant Chief Engineer L. S. Ready of the Railroad Commission submitted an estimate of a total of 70,000,000 k.w.hrs. to be transferred under this agreement during the year. This amount has been questioned by the applicant on the ground that present interconnections are not capable of supplying that amount of power and at present no arrangements have been made for enlarging the interconnections. It is essential to applicant if it desires to maintain its financial position that it and Pacific Gas and Electric Company arrange so that the power will be absorbed.

In view of the present economic conditions, the large proposed production of power by use of oil on Pacific Gas and Electric Company's system, and the necessity of applicant ~~XXXXXXXXXXXXXXXXXXXX~~ ~~XXXXXXXXXXXX~~ selling all surplus power possible to offset its increased fixed charges and the facts before the Commission relative to possibilities of interconnection, I am convinced there is a way to have the power used if the matter is gone at with determination. For the purpose of this proceeding the estimate of 70,000,000 k.w. hrs. to be sold to Pacific Gas and Electric Company will be accepted,

and it will be the duty of the companies and <sup>not</sup> the Railroad Commission to see that the power is made use of.

The original rate recommended by Mr. Ready to be charged for this surplus power averaged approximately  $7\frac{1}{2}$  mills per k.w.hr. and would result in a total estimated revenue to applicant of \$525,000. Since this report was made the price of oil has been reduced 25 cents per barrel, and, as this power is to be delivered to supplant oil produced power, the rate must necessarily be such as to encourage the purchase and use of the power by Pacific Gas and Electric Company. A revised estimate of the reasonable rate for this surplus results in an average charge of approximately 6.7 mills per k.w.hr., so that the total revenue to be received from this service is \$469,000.

It appears that applicant's power supply is such that even with an average water power supply its steam produced power need not be in excess of that estimated under the conditions existing for this year. Considerable question was raised regarding production and transmission expense estimated for the year 1921, directed largely to the maintenance of equipment made necessary by the heavy operations of the plants during the past years. The steam plants will be operated to only a small extent during the present year, but it is essential from an operating standpoint that they be put in first-class condition. Applicant must, in view of this allowance, see that all necessary maintenance be done.

Outside of the correction for reduction in the price of fuel oil and labor costs, I believe that for the surcharge proceeding the estimates may be accepted. The reduction in the production expense resulting from the oil price reduction of 25¢ per barrel applied to the twelve months basis considered will be \$63,000. Applicant's estimate of labor includes the higher wages

in effect for one month of 1921. A reduction of \$5000 in expense should be made in arriving at the estimates used herein.

Protestants urged that applicant's estimate of cost for advertising and new business expense is either unnecessary or not chargeable to the operations of the present year. Applicant has not been carrying active sales work for some time and, in view of its increased supply of power and the general depression, proposes considerable increase in its advertising and new business expense. Reasonable advertising and solicitation of business, provided it is not directed to the taking of business from other companies, should be allowed. I believe, however, that part of the new business expense for this year should be charged to the business which is taken on and not to the depressed business which is estimated for this year. Applicant's estimate for commercial expense will be reduced to \$225,000.

The general and miscellaneous expense appears to show a marked increase, a large part of which is explained by an examination of the details of the account. Attorneys for protestants take exception to the item of salaries of general officers included in the account. Applicant met these arguments not by urging the value of the personal services concerned but with the contention that the charges to the account as a whole must be considered and especially mentioned the item of rent for general office quarters. From a consideration of total general expense as compared with the gross revenue for this utility and for other utilities I am convinced that for this proceeding an allowance such as set forth in applicant's estimate cannot fairly be charged to operations. Without passing upon the justification of the entire amount at this time it appears reasonable to reduce the amount chargeable to operations for the year 1921 from the estimate of

\$178,000 to \$150,000.

Applicant's estimate of taxes for the year 1921 is a total of \$570,000.00. The question of basis of estimating taxes was the subject of special consideration in connection with the proceeding involving the surcharge on the Pacific Gas and Electric Company's system. Applicant has estimated its state taxes upon the "payment" basis as distinguished from the "accrual" basis. Without discussing in detail the basis of the conclusion found in the proceeding in Application No. 5567, involving the Pacific Gas and Electric Company's surcharge, it appears that the same basis should be followed in this proceeding. State taxes will be allowed equal to the amount which became a lien on the property on the first Monday of March 1921, or  $7\frac{1}{2}$  percent of 1920 gross electric revenue. This basis appears especially fair when it is considered that in determining allowable working cash capital taxes are not included and further in view of the fact that the surcharge herein authorized is for the period commencing April 10, 1921. The total allowance for all taxes in connection with the determination herein will be \$618,000.00.

Applicant has submitted an estimate of \$60,000 as the cost of protection of property, incurred in connection with a strike of its employees early in 1921. As the surcharge to be fixed herein is to commence with April 1921 and is based upon existing conditions, and as the period during which the expense was incurred has been in general prior to April, it does not appear necessary to consider this item in connection with this proceeding. If further consideration should be given to a possible amortization of this amount it may be brought up in the main proceeding.

In Decision No. 7824 fixing the surcharge of 15% the Commission found that for the year 1920 applicant was entitled to an annual net return after accounting for \$360,000 for depreciation, of \$2,610,000. This amount includes the sum of \$110,000, being eleven percent for interest and depreciation on estimated net additions to operative property of \$1,000,000 made subsequent to the period for which the return was accepted as reasonable.

Applicant urges that it should be allowed 11% per annum for return and depreciation upon the additional investment in its general system made since the previous decision, and upon the entire Caribou development for the period during which its various units will be in operation. In its Exhibit No. A-Q it estimates that the total investment in the Caribou plant and transmission line which will be in part operative for the year 1921 equals \$15,455,320, and that for the months in which the various units are in operation it should be allowed a total amount for return and depreciation of \$1,092,077.

Attorneys for protestants were not willing to accept the estimates of applicant as to the reasonable cost of the Caribou development. It was, however, finally agreed that for the basis of the surcharge proceeding only the Commission accept the costs as reported as a basis of determining what amount applicant might be entitled to earn.

The general additions to the company's property exclusive of Caribou were the subject of considerable cross-examination, it being urged by protestants that in view of the depression in business applicant could not show justification for the expenditure of approximately \$1,000,000 esti-

mated by it for the year.

Expenditures for 1921 will probably be greater than 1920 as a result of the new business campaign inaugurated but much of this will not result in increased business until the latter part of the year. An estimate of \$700,000 additions and betterments since the last decision appears reasonable to allow to bring the general basis up to the middle of 1921. This includes \$270,000 additions up to December 31st, 1920 not included heretofore and \$430,000 covering one-half of additions and betterments estimated to be operative for 1921. The reasonable comparative return for 1921 not including return on Caribou, will be \$2,687,000.

The reasonable amount on its investment in the Caribou development ~~to~~ which applicant is entitled to earn during the present year is difficult of definite determination. The contention of applicant that it should be allowed a full return upon all of the money invested for the period when the plant is physically in operation, even during the present depression when an actual decrease in business is estimated, does not appear to be reasonable. Applicant has increased its hydro-electric capacity in one installation by 60% and its total plant capacity by approximately 45%. If it sells no more power than it originally estimated to the Pacific Gas and Electric Company it would without question be unfair to the existing consumers to require them to bear the entire additional burden this year. Applicant cannot expect during a period when its business does not increase, to receive a full return on all additions immediately upon an increase of approximately

40% in its fixed charges and plant capacity.

It appears to me in many respects the return which applicant ~~invests in the power company~~ can reasonably receive on this investment is the net earning which it will obtain as a result of the sale of surplus power to Pacific Gas and Electric Company as herein provided, and the earning which it will receive from a surcharge similar to that found reasonable on Pacific Gas and Electric Company's system. If such a surcharge does not result in excess of a reasonable return on the operative property no injustice will be done to applicant's consumers. This is apparently the maximum which it can expect to earn during this year. Any additional compensation to which applicant may be entitled either in the form of development cost or amortization of losses during the period in question must be the subject for consideration in the "main" proceeding.

The Commission's Assistant Chief Engineer L. S. Ready recommended that an average investment of \$8,000,000 be considered as the operative investment in the Caribou development for the year 1921 on the basis of 70,000,000 k.w.hr. sales to Pacific Gas and Electric Company and in view of the fact that the plant would not be fully loaded and only in operation for approximately seven and one-half months. This is comparable with applicant's estimate, which is equivalent to an average investment of \$10,000,000.

The surcharge authorized to be charged by Pacific Gas and Electric Company in Decision No. 9017 in Application No. 5567, this day decided, is 6%. The following table sets forth the estimated revenue based on the application of a 6%

surcharge for an entire year and the operating expenses and fixed charges for the same period as herein allowed:

TABLE NO. III

Reasonable Operating Revenues and Expenses

GREAT WESTERN POWER COMPANY OF CALIFORNIA

Year Beginning April 1921

Revenue:

Electric - Regular consumers	\$5,459,000
Electric - P. G. & E. Co.	469,000
Steam Heat	325,000
Other	2,000
Water Sales - Net	50,000
	<hr/>
Total	\$6,305,000

Operating Expenses:

Production	825,000
Transmission	137,000
Distribution	313,000
Steam Heat	92,000
Commercial	225,000
General and Miscellaneous	150,000
Rent	23,000
Taxes	618,000
Uncollectible Electric Bills	12,000
Valuation Expense	17,500
Depreciation (on original 1918 basis)	360,000
	<hr/>
Total	\$2,772,500

Net Revenue after Depr. on 1918 property	\$3,532,500
Net on property exclusive of Caribou and transmission line	<hr/> \$2,687,000
Balance for Depreciation and Return on Caribou Development	\$ 845,500

There is some question regarding proper rates for depreciation and return to be allowed on the Caribou investment. It will be noted that the sum of \$845,500 which the above table shows will be available for these purposes is equivalent to 10% for depreciation and return on an average operative investment of \$8,455,000.00 or on the basis requested by Applicant, 11% on \$7,700,000.00. For the purposes of temporary rates this cannot be considered as unfair to either consumers or the utility.

I recommend the following form of Order:

#### O R D E R

Great Western Power Company of California having filed its supplemental application for authority to continue the surcharge of 15% heretofore authorized in Decision 7824 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. 8836, dated April 9, 1921, reduced the 15% surcharge to 10% and having ordered that all sums collected upon said 10% surcharge be impounded by Great Western Power Company of California subject to the order of this Commission in its final decision in this supplemental application No. 5585.

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 Great Western Power Company of California.

IT IS HEREBY ORDERED that Great Western Power Company of California 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 ~~rendered~~ rendered on and after June 1, 1921.

IT IS HEREBY FURTHER ORDERED that in pursuance with the provisions of this Commission's Decision No. 8836 Great Western Power Company of California 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 Decision No. 8836 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 day of May, 1921.

W. B. Brundage

James W. Hart  
Charles A. Howell

W. B. Brundage