

Decision No. 27730

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA.

THE CITY OF SAN DIEGO, a  
municipal corporation,

Complainant,

vs.

SAN DIEGO CONSOLIDATED GAS AND  
ELECTRIC COMPANY,

Defendant.

ORIGINAL

Case No. 3152.

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In the Matter of the Investigation on the  
Commission's own motion into the rates,  
rules, regulations, charges, classifica-  
tions, contracts, practices, operations  
and service, or any of them, etc., of  
San Diego Consolidated Gas and Electric  
Company, engaged in furnishing gas,  
electric and steam heating service in  
the City of San Diego and/or other  
points within the State of California.  
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Case No. 3153.

C. L. Byers, City Attorney, and Gilmore Tillman, Asst.  
City Attorney, for the City of San Diego.  
Stearns, Luce and Forward, by Edgar A. Luce, and  
Chickering and Gregory, by Evan Williams and  
Walter C. Fox, Jr., for San Diego Consolidated  
Gas and Electric Company.  
Wm. J. Hagenah, of Chicago, for Byllesby Engineering &  
Management Corporation.  
O. C. Ludwig, City Attorney, for the City of Chula Vista.  
A. B. Fry, Mayor pro tempore of the City of Coronado,  
for the City of Coronado.  
J. C. Hizar, City Attorney, for the City of Oceanside.  
J. A. Isaacson, City Attorney, for the City of La Jolla.  
J. J. Deuel, for California Farm Bureau Federation.  
Edgar B. Hervey, for M. W. Wright.  
John D. Reavis, for City Taxpayers Auditing Association.  
J. A. Isaacson, City Attorney, for National City.  
Thomas Wheelan, Assistant District Attorney, for the  
Board of Supervisors, County of San Diego.  
Frederick Von Schrader, for the City of San Diego.  
A. W. Wilson, for Taxpayers Auditing Association of  
San Diego.  
Maurice M. Myers, City Attorney of Oceanside, for City  
of Oceanside.  
F. A. Jones, Charles J. Gamble and L. F. Jones, for Wiley  
V. Ambrose.

CARR, Commissioner.

## O P I N I O N

### The Proceedings.

By complaint filed on December 7, 1931, the City of San Diego complained of the electric, gas and steam rates of the San Diego Consolidated Gas and Electric Company in San Diego. Substitution of natural for manufactured gas was sought. On December 15, 1931 the Commission, on its own motion, ordered an investigation of the rates and practices of the utility, thus broadening the issues to include operations without as well as within the City. The two cases were consolidated.

Public hearings were had in December 1931 and in February 1932 (5 days in all), as a result of which the Commission on February 15, 1932 made its order directing an interim reduction in rates. (San Diego v. S.D.C.G. & E. Co., 37 C.R.C. 167.) The order in form established (1) reasonable interim rates, effective on April 1, 1932 for electric, manufactured gas and steam service, and also (2) reasonable interim rates for electric and steam service effective on April 1, and for natural gas service effective on September 15, 1932. The utility was given the option of electing to introduce natural gas, in which event the second set of rates was to obtain. Such election was made and natural gas was introduced into the major portion of the

(1)  
territory served.

It was pointed out in the opinion preceding the interim order that the rates for natural gas would result in increases in bills for so-called convenience users but would work a substantial decrease for consumers using gas for cooking and heating. This feature of the rates did in fact cause some dissatisfaction, as a consequence of which the City of San Diego asked that a modification of the rates be made. A hearing was had on this complaint but the Commission refused to change the rate spread. (38 C.R.C. 358.)

The interim order being of a temporary nature, hearings have since been had on the consolidated cases looking to their final disposition. (2) The presentation of evidence closed on November 9, 1934 and the cases were argued orally before the Commission on November 22, 23 and 24, 1934. Since that time voluminous written briefs have been filed. They are now at last ready for final decision.

(1) The decision indicates that by these schedules the Commission intended to effect a reduction in gross revenue of approximately \$600,000. a year. Actually the amount of reduction effected for the year 1933 was somewhat in excess of this amount. According to the City, it was \$778,700. actual, and \$677,000. temperature adjusted for gas and steam, and according to the Company \$777,213. actual, and \$653,121. temperature adjusted for gas and steam. Expressed in percentage the reduction approximated 11 per cent on the over-all actual revenue.

(2) On Sept. 14, 1933 a hearing was had at which a schedule for the presentation of evidence was agreed upon which would bring the hearings to a prompt conclusion. However, the City or the Company would find itself not ready to proceed and the schedule speedily disintegrated so that the hearings dragged along interminably. In addition to the hearings leading up to the interim order, hearings were had on Sept. 14 in 1933, and in 1934 on January 30 and 31, Feb. 1, 20 and 21, April 3, 4, 6, 7, 10, 11 and 12, May 1, 2, 3, 4, 15 and 16, July 9, 10, 11, 12 and 13, August 2 and 3, October 2, 3, 4, 5, 9, 10, 11, 12, 16, 17 and 18, and November 7, 8 and 9.

### History and Development of the Company.

The early history of the Company was recounted at length in Re S.D.C.G. & E. Co., 11 C.R.C. 735, decided on November 3, 1916. Since the date of that decision the Company has extended the field of its operations, in part by the acquisition of small local utilities, and in part by a natural spreading out and growth of its system. Thus, in 1916 it purchased the property of a small gas and electric company in Oceanside. (12 C.R.C. 481.) The next year it acquired a small gas and electric plant at Escondido. (12 C.R.C. 505.) In 1918 a small electric distributing system at Del Mar was purchased. (15 C.R.C. 212.) Two years later the Company purchased from the San Diego Electric Railway Company the latter's electric generating plant and from the United Light, Fuel and Power Company a steam heating plant in San Diego. (19 C.R.C. 135.) Two years later the Company acquired an electric distributing system in Coronado from the United Light, Fuel & Power Company. (21 C.R.C. 358.) In 1930 it acquired the gas properties of the South Coast Gas Company at Oceanside. (35 C.R.C. 366.) Many of these acquisitions were of very small properties. The largest were those acquired from the San Diego Street Railway Company and the South Coast Gas Company. The decisions of the Commission authorizing the transfers show that close supervision was exercised over the purchases, and where more was paid for the properties than their cost less depreciation, appropriate charges against surplus were required.

In the electric department plant growth has been both in generation facilities and line construction. In 1917 there was an extension to Fallbrook. About 1918 an extension to the north of Oceanside was started, which ended up at San Juan Capistrano, where

the system is connected with that of Southern California Edison Company, Ltd. In 1921 and succeeding years the system was gradually pushed eastward to Descanso. Starting a little later lines were extended to Julian. Between 1921 and 1931 the Tecate line was installed. About 1924 a connection was made with The Southern Sierras Power Company system at Rincon.

Concurrently with the extension of the electric system, the Company's manufacturing gas facilities were extended so that the territory along the coast as far north as Oceanside was served, as well as communities as far east as El Cajon and as far south as San Ysidro. In 1932 natural gas was substituted for manufactured gas, except at Escondido, service of which is continued from a small manufactured gas plant located there.

Thus through a process of acquisition of utilities and the extension of facilities the Company has developed its system until it serves all of San Diego County with electricity, gas and steam, where these services are provided, and a small section of the southerly part of Orange County with electricity. Roughly speaking, the territory served is approximately 90 miles long and 40 miles wide. Of its gross business in 1933 approximately 72.5 per cent may be attributed to the territory within the San Diego city limits.

#### Present Facilities.

Electricity for the supply of the system in the main is generated at the two steam plants of the Company in San Diego, Stations "A" and "B". Station "A" has an installed capacity of 10,000 K.W. and is maintained essentially for standby purposes to

Station "B", which has an installed capacity of 64,000 K.W. The Company has an inter-connection at San Juan Capistrano with the system of the Southern California Edison Company, Ltd., where a maximum of 5,000 K.W. may be secured. It also has an inter-connection at Rincon with the system of The Southern Sierras Power Company. The line capacity permits an interchange of 10,000 K.V.A. at this point. Until 1932, when the Company moved over to natural gas, it manufactured gas for the service of its consumers mainly at San Diego, where it has a modern oil gas manufacturing plant. A small amount was produced at plants at Escondido and Oceanside.

#### Growth and Earning Position.

The rapid growth and development of the Company is depicted in Table I which gives its operating experience from 1916 to 1933, inclusive, the rate base figures being built up from the figures contained in the 1916 decision by adding net additions and betterments,<sup>(3)</sup> and the revenue and expense figures being those annually reported to the Commission.<sup>(4)</sup> Payments made to Byllesby Engineering & Management Corporation and its predecessor, H. M. Byllesby & Co., and which are here in issue appear both in the rate base and operating expense figures.

<sup>(3)</sup> These are set out in Exhibit 21 for the period 1916 to 1931, inclusive. The rate base figures for 1932 and 1933 are developed from items contained in the annual reports for these two years, allocations between departments following the same basis as employed in Exhibit 21. Working cash and materials and supplies are included on the basis usually followed in allowing for these items.

<sup>(4)</sup> Depreciation expense is included as reported except that deduction has been made from the reported figures of the portion thereof which represents 6 per cent interest on the reserve. The reported figures thus reached have been in turn allocated between the three departments of the Company. In the hearings prior to the interim order an earning statement was worked out for the period 1916 to 1931. In that depreciation expense was estimated which explains why the rates of return there shown differ somewhat from the rates shown in Table I where the depreciation expense included represents the amounts reported from year to year by the Company. In some years lump sums were added to the reserve in excess of the ordinary annuity.

TABLE I  
 AS PER CERTAIN REPORTS AND EXHIBIT NO. 21  
 PERIOD 1916-1933, INCLUSIVE

Year	Rate Base			Total	Department		Total	Rate of Return			Net for Return			
	Electric	Gas	Steam		Electric	Gas		Electric	Gas	Total	Electric	Gas	Total	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
1916	\$3,328,000	\$2,774,000	\$-	\$6,102,000	\$931,000	\$600,000	\$1,531,000	8.0	8.0	8.0	\$1,531,000	\$1,531,000	\$1,531,000	\$1,531,000
1917	3,876,000	3,000,000	-	6,876,000	927,000	703,000	1,630,000	7.9	8.0	8.0	1,630,000	1,630,000	1,630,000	1,630,000
1918	4,409,000	3,251,000	-	7,660,000	1,116,000	1,086,000	2,202,000	7.9	8.0	8.0	2,202,000	2,202,000	2,202,000	2,202,000
1919	4,645,000	3,420,000	-	8,065,000	1,220,000	1,055,000	2,275,000	8.0	8.0	8.0	2,275,000	2,275,000	2,275,000	2,275,000
1920	4,956,000	3,647,000	-	8,603,000	1,518,000	1,111,000	2,629,000	8.2	8.0	8.0	2,629,000	2,629,000	2,629,000	2,629,000
1921	6,242,000	4,132,000	109,000	10,483,000	2,233,000	1,500,000	3,733,000	7.8	8.0	8.0	3,733,000	3,733,000	3,733,000	3,733,000
1922	8,123,000	4,787,000	114,000	13,024,000	2,169,000	1,566,000	3,735,000	7.8	8.0	8.0	3,735,000	3,735,000	3,735,000	3,735,000
1923	9,860,000	5,975,000	123,000	15,958,000	2,289,000	1,472,000	3,761,000	7.8	8.0	8.0	3,761,000	3,761,000	3,761,000	3,761,000
1924	11,422,000	7,383,000	134,000	18,939,000	2,922,000	1,724,000	4,646,000	7.8	8.0	8.0	4,646,000	4,646,000	4,646,000	4,646,000
1925	12,553,000	8,259,000	148,000	20,960,000	3,291,000	2,014,000	5,305,000	7.8	8.0	8.0	5,305,000	5,305,000	5,305,000	5,305,000
1926	13,421,000	8,898,000	166,000	22,485,000	3,652,000	2,059,000	5,711,000	7.8	8.0	8.0	5,711,000	5,711,000	5,711,000	5,711,000
1927	15,227,000	9,674,000	184,000	25,085,000	4,000,000	2,517,000	6,517,000	7.8	8.0	8.0	6,517,000	6,517,000	6,517,000	6,517,000
1928	18,418,000	10,433,000	197,000	29,048,000	4,178,000	2,600,000	6,778,000	7.8	8.0	8.0	6,778,000	6,778,000	6,778,000	6,778,000
1929	20,975,000	11,174,000	210,000	32,359,000	4,511,000	2,711,000	7,222,000	7.8	8.0	8.0	7,222,000	7,222,000	7,222,000	7,222,000
1930	22,377,000	11,754,000	226,000	34,367,000	4,627,000	2,711,000	7,338,000	7.8	8.0	8.0	7,338,000	7,338,000	7,338,000	7,338,000
1931	23,516,000	12,326,000	232,000	36,074,000	4,740,000	2,702,000	7,442,000	7.8	8.0	8.0	7,442,000	7,442,000	7,442,000	7,442,000
1932	24,044,000	12,544,000	235,000	36,823,000	4,584,000	2,837,000	7,421,000	7.8	8.0	8.0	7,421,000	7,421,000	7,421,000	7,421,000
1933	24,256,000	12,699,000	235,000	37,190,000	4,532,000	2,418,000	6,950,000	7.8	8.0	8.0	6,950,000	6,950,000	6,950,000	6,950,000

CORRECTION

# CORRECTION

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**TABLE I**  
**RESULTS OF OPERATION**  
**AS PER COMPANY REPORTS AND EXHIBIT NO. 21**  
**PERIOD 1916-1933, INCLUSIVE**

	Rate Base				Gross Revenue				Operating Expenses				Net for Return				Rate of Return			
	Department				Department				Department				Department				Department			
	Electric	Gas	Steam	Total	Electric	Gas	Steam	Total	Electric	Gas	Steam	Total	Electric	Gas	Steam	Total	Electric	Gas	Steam	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	
1916	\$3,328,000	\$2,774,000	\$-	\$6,102,000	\$931,000	\$620,000	\$-	\$1,551,000	\$479,000	\$451,000	\$-	\$930,000	\$452,000	\$169,000	\$-	\$621,000	13.6	6.1	-	10.2
1917	3,876,000	3,000,000	-	6,876,000	927,000	703,000	-	1,630,000	504,000	506,000	-	1,010,000	423,000	197,000	-	620,000	10.9	6.6	-	9.0
1918	4,409,000	3,251,000	-	7,660,000	1,116,000	1,086,000	-	2,202,000	701,000	898,000	-	1,599,000	416,000	188,000	-	603,000	9.4	5.8	-	7.9
1919	4,645,000	3,420,000	-	8,065,000	1,220,000	1,055,000	-	2,275,000	782,000	847,000	-	1,629,000	438,000	208,000	-	646,000	9.4	6.1	-	8.0
1920	4,956,000	3,647,000	-	8,603,000	1,518,000	1,159,000	-	2,677,000	977,000	973,000	-	1,950,000	541,000	186,000	-	727,000	10.9	5.1	-	8.5
1921	6,242,000	4,132,000	109,000	10,483,000	2,233,000	1,550,000	50,000	3,833,000	1,612,000	1,259,000	49,000	2,920,000	621,000	291,000	1,000	913,000	9.9	7.0	1.3	8.7
1922	8,123,000	4,787,000	114,000	13,024,000	2,169,000	1,586,000	55,000	3,790,000	1,548,000	1,204,000	51,000	2,803,000	621,000	362,000	4,000	987,000	7.6	7.6	4.0	7.6
1923	9,860,000	5,975,000	123,000	15,958,000	2,289,000	1,479,000	52,000	3,820,000	1,436,000	1,190,000	41,000	2,667,000	853,000	289,000	11,000	1,153,000	8.7	4.8	8.3	7.2
1924	11,422,000	7,383,000	134,000	18,939,000	2,922,000	1,724,000	69,000	4,715,000	1,860,000	1,357,000	44,000	3,261,000	1,062,000	367,000	25,000	1,454,000	9.3	5.0	18.5	7.7
1925	12,553,000	8,259,000	148,000	20,960,000	3,291,000	2,034,000	68,000	5,393,000	2,063,000	1,576,000	45,000	3,684,000	1,228,000	458,000	23,000	1,709,000	9.8	5.5	15.8	8.2
1926	13,421,000	8,898,000	166,000	22,485,000	3,652,000	2,059,000	56,000	5,767,000	2,246,000	1,647,000	48,000	3,941,000	1,406,000	412,000	8,000	1,826,000	10.5	4.6	5.3	8.1
1927	15,227,000	9,674,000	184,000	25,085,000	4,000,000	2,512,000	78,000	6,590,000	2,502,000	1,869,000	60,000	4,431,000	1,498,000	643,000	18,000	2,159,000	9.8	6.6	9.9	8.6
1928	18,418,000	10,433,000	197,000	29,048,000	4,178,000	2,600,000	82,000	6,860,000	2,566,000	1,884,000	58,000	4,508,000	1,612,000	716,000	24,000	2,352,000	8.8	6.9	12.3	8.1
1929	20,975,000	11,174,000	210,000	32,359,000	4,511,000	2,752,000	86,000	7,349,000	2,785,000	1,986,000	61,000	4,812,000	1,746,000	766,000	25,000	2,537,000	8.3	6.9	11.9	7.8
1930	22,377,000	11,754,000	226,000	34,367,000	4,627,000	2,710,000	87,000	7,424,000	2,650,000	1,904,000	51,000	4,605,000	1,977,000	806,000	36,000	2,819,000	8.8	6.9	16.1	8.2
1931	23,516,000	12,326,000	232,000	36,074,000	4,740,000	2,702,000	82,000	7,524,000	2,673,000	1,897,000	45,000	4,615,000	2,067,000	805,000	37,000	2,909,000	8.8	6.5	15.9	8.1
1932	24,044,000	12,544,000	235,000	36,823,000	4,584,000	2,837,000	85,000	7,506,000	2,685,000	2,024,000	55,000	4,764,000	1,899,000	813,000	30,000	2,742,000	7.9	6.5	13.0	7.4
1933	24,256,000	12,699,000	235,000	37,190,000	4,532,000	2,418,000	88,000	7,038,000	2,661,000	2,026,000	68,000	4,755,000	1,871,000	392,000	20,000	2,283,000	7.7	3.1	8.7	6.1

Rate Reductions.

In recent years various rate reductions have been made, sometimes voluntarily by the Company, sometimes through orders of the Commission. The dates and amounts of these are listed by the Company as follows:

1927 .....	\$186,550.
1928 .....	425,552.
1929 .....	296,791.
1930 .....	59,702.
1931 .....	187,209.
1932 .....	576,054.

Of these reductions, those of 1928 and 1932 were made by order of the Commission. (5)

Level of Rates.

The utility's electric rates in the City of San Diego for domestic and commercial service are on a somewhat higher level than are the prevailing rates of other privately owned utilities in comparable communities, such, for instance, as Long Beach on the Southern California Edison system, and Sacramento on the Pacific Gas and Electric system. In unincorporated territory, however, they are generally lower than the comparable rates of these other utilities. Application of the domestic rates of the Southern California Edison Company at Long Beach to the San Diego portion of the Company's business would reduce its gross electric revenue by approximately \$121,000. per year, or about 9-3/4 per cent, and the application of the commercial schedule approximately \$71,000. a year, or about 9.8 per cent.

(5) In Re S.D.C.G. & E. Co., 31 C.R.C. 585 (1928), the Commission ordered a reduction in electric rates of some \$400,000. per annum. The 1932 reduction is that effected by the interim order in the instant proceeding. The amount of this reduction as applied to the volume of business in 1933 was larger than the figure here given. (See footnote 1.)

A similar application of the Pacific Gas and Electric Company domestic and commercial rates prevailing at Sacramento would work reductions of approximately \$80,000. per year, or 6½ per cent, domestic and approximately \$105,000. per year, or 13½ per cent, commercial. Unlike other large electric utilities, the San Diego Company applies uniform rates over its entire territory which explains why its outside rates are lower than those of the other utilities mentioned. Its general power rates are slightly higher than those on the Edison and Pacific Gas and Electric systems.

The Company's gas rates when compared with rates in other comparable communities are high. This is due in part to the geographical location of the Company's system, resulting in a higher gate-way cost of gas.<sup>(6)</sup> Moreover, San Diego is not as good natural gas territory as that enjoyed by other major utilities because of its warmer climate. Also, there is not the demand for gas for industrial purposes that prevails on the systems of the other great natural gas distributing utilities of the State. Actual experience has not justified the expectations of the Company and the City when the matter of moving over to natural gas was before the Commission, recovery of load under the higher heat content of natural gas not having been as rapid as was then expected. This may be ascribed to various causes - saturation, temperature, the effect of the depression, and a high level of natural gas rates.

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(6) The gate-way cost of gas in Los Angeles to the Los Angeles Gas and Electric Corp. is between 17 and 18 cents per M. cu. ft. (Re L.A.G. & E. Corp., 32 C.R.C. 379.) The gate-way cost to the Pacific Gas and Electric Co. is less. (Re P.G. & E. Co., 39 C.R.C. 53.) For gas for domestic and commercial purposes the gate-way cost to the San Diego Company is 30 cents per M. cu. ft.

Financial Requirements and History.

As of December 31, 1933 the Company had outstanding:

1. Bonds consisting of \$4,188,000. of 6 per cent bonds, \$2,000,000. of 5½ per cent bonds and \$9,680,000. of 5 per cent bonds, of the par value of .....\$15,868,000.00
2. 7 per cent preferred stock of the par value of ... 6,292,500.00
3. Common stock, over 99 per cent of which is owned by the Standard Gas & Electric Co., of the par value of ..... 10,032,500.00
4. Unamortized debt discount and expense equalled ... 741,846.77
5. Its depreciation reserve largely invested in plant and upon which it accrues interest at 6 per cent was ..... 6,891,234.17

Its annual fixed charges for bond interest, preferred stock dividends, amortization of debt discount and expense on a straight line basis and depreciation reserve interest in 1933 as reported was \$1,731,655.93. With debt discount and expense amortized on a sinking fund basis, the effective carrying cost of bond, preferred stock, and depreciation reserve money invested in the property is 6.43 per cent. <sup>(7)</sup>

It has an unbroken record of dividends on its common stock, as indicated by Table II, which also shows, in addition to dividend payments, the growth of the Company's surplus and of its depreciation reserve. <sup>(8)</sup>

<sup>(7)</sup> With amortization of debt discount and expense figured upon a straight line basis the carrying rate is 6.57 per cent.

<sup>(8)</sup> The depreciation reserve shown includes certain special reserves for automobiles and special tools. This is subsequently discussed. The annual reports do not permit of the elimination of this special reserve.

TABLE II

STATEMENT SHOWING DIVIDENDS PAID ON COMMON STOCK, ACCUMULATED  
SURPLUS AND DEPRECIATION RESERVE OF  
SAN DIEGO CONSOLIDATED GAS AND ELECTRIC COMPANY

Year	Amount of Common Stock Outstanding End of Year	Rate of Dividend %	Amount of Dividend During Year	Surplus End of Year	Depreciation Reserve End of Year
1913	\$ 2,715,000.	8.75	\$ 237,562.00	\$ 15,877.77	\$ 335,485.18
1914	2,715,000.	10	271,500.00	40,198.88	435,112.65
1915	2,955,000.	10	291,500.00	104,146.86	502,484.05
1916	2,955,000.	10	295,500.00	148,472.43	515,824.20
1917	2,955,000.	10	295,500.00	110,924.69	657,207.89
1918	2,955,000.	9.584	283,187.50	50,866.41	648,047.96
1919	2,955,000.	7.5	221,625.00	50,866.41	710,982.18
1920	2,972,100.	9.75	289,750.08	50,866.41	756,702.92
1921	3,010,800.	10	299,174.21	50,866.41	864,144.10
1922	3,025,000.	10	301,617.49	50,866.41	708,008.86
1923	3,029,600.	8	242,600.00	50,866.41	1,011,713.82
1924	3,032,500.	10	303,250.00	70,302.70	1,273,353.09
1925	3,032,500.	10	303,250.00	276,654.83	1,593,202.59
1926	4,157,100.	10	345,554.88	447,450.56	2,375,908.03
1927	5,032,500.	10	490,450.27	806,169.13	3,049,875.07
1928	7,032,500.	10	612,434.69	1,171,885.27	3,598,536.68
1929	10,032,500.	10	933,355.44	1,390,326.17	4,262,000.45
1930	10,032,500.	11	1,103,575.00	1,590,684.41	4,827,312.57
1931	10,032,500.	11	1,103,575.00	1,803,557.14	5,586,453.94
1932	10,032,500.	10.5	1,053,412.50	1,829,085.26	6,462,103.03
1933	10,032,500.	5.27	528,378.32	1,750,527.15	7,326,748.97

Because of the falling off of new construction and the rapid growth of the depreciation reserve, the Company finds itself in an unusual cash position. <sup>(9)</sup> The Company is experiencing some difficulty in placing this cash where it will yield a substantial income.

Company's Position in Rate Cases.

The record of rate proceedings involving this Company indicates an acquiescence in, if not a preference for, the testing of earnings upon the basis of undepreciated historical cost of the property with depreciation expense calculated on a sinking fund basis. This was the basis used in the 1916 case. (11 C.R.C. 735.) In 1917 the Company applied for an increase in its gas rates. The application was granted, the rate base considered being that established in the prior decision brought up to date by the net additions and betterments. (15 C.R.C. 283.) In 1919 the Commission permitted the Company to increase its electric and gas rates, its earning position being determined on the basis of the 1916 rate base with net additions and betterments added. (16 C.R.C. 649.) In 1921 the Commission again passed upon the rates of the utility, application therefor having been made by the Company. The set-ups were those used in the 1916 decision brought forward. (19 C.R.C. 383.) The reduction in rates of 1928 was premised upon an earning basis on "investment." (31 C.R.C. 585.) And in the hearings leading up to the interim

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(9) Thus Mr. Dahl, a financial witness for the Company, testifying in July, pointed out that "The Company at the present time has a cash balance, I believe, of approximately \$1,900,000., possibly close to \$2,000,000., which amount, of course, is substantially in excess of what we expect to claim as necessary cash working capital allowance." "The existence of that large amount of cash" he testified, "is attributable very largely to depreciation reserve moneys which it has been impossible for the Company to re-invest in property on account of the absence of new construction."

order herein all set-ups presented by the various parties, including that of the Company, were upon the basis of historical cost and depreciation expense, calculated on a 6 per cent sinking fund basis. (37 C.R.C. 167.)

Notwithstanding all this, counsel for the utility in the course of the oral argument took the position, in effect, that although the historical cost basis of testing rates is to be preferred, both from the standpoint of the public and of the utility, nevertheless, if the Commission should now reduce the Company's figure of historical cost by reducing overheads as charged on the books to the extent they contain fees paid to the Byllesby organization for engineering services in excess of cost or other amount deemed reasonable, then the Company "will have to insist upon some other theory of value."<sup>(10)</sup>

(10) This position was assumed in connection with a discussion of the City's claims that overheads should be reduced by the amount the engineering fees paid to the management company exceeded the cost to that company of the service rendered. The language used is set forth verbatim.

"I, therefore, say whether you gentlemen accept Mr. Kuhn's valuation as it stands now, whether you accept our actual book figure, whether you take the 1915-16 rate base, what is remaining of it, plus net additions and betterments, or whether you establish to your own mind reasonable base costs and add to them reasonable overheads, so far as the historical cost is concerned, it is agreeable to us. However, if you decide to endeavor to adopt some other theory of regulation, something different than you have ever followed so far and attempt to cut down base costs to below what is a reasonable figure for base costs, and on top of that apply to such unreasonable base costs unreasonably low overheads, thus following in a measure some of the public hysteria that exists at the present time with regard to holding companies, I will certainly disagree with the regulation of this Company on the historical theory. If you will take reasonable base costs, if you will take reasonable overheads, it is my opinion they will check with our book figures.

This Company -- I say it, though, without waiving in any sense our legal rights -- would prefer to be regulated on the historical cost theory rather than on any theory. I am firmly convinced, from the point of view of the public and of the utilities that that policy which has been followed by this Commission in the past is probably the best policy for everybody, namely, the protection of the investment. But if you are going to take out the good that is received and limit us to a rate base that does not constitute in any way the actual value, or approach the actual value of this property, then I am frank to say we will have to insist on some other theory of value, to which I will come in a few minutes."

### Over-all Earning Position as Test.

In the early hearings in the instant case it developed that the introduction of natural gas was not feasible if the Company's gas department were treated separately from the electric and steam departments for rate fixing purposes. This is referred to in the interim order where it is concluded that with natural gas the Company's over-all earning position had to be considered. The propriety of this conclusion is not questioned here nor is it claimed that rates should be fixed by departments without due regard to the utility's over-all position.

### Issues.

While a most voluminous record has been developed the determinative issues are relatively few in number and may be listed as follows in the most logical order of their consideration:

1. The engineering and management fees of the Byllesby Engineering and Management Corporation (and its predecessor H. W. Byllesby & Co.) properly to be allowed. This goes both to the matter of overheads to be used in developing a property base upon which a fair return must be allowed and also to the amount properly to be included in estimates of reasonable operating expense. About these centered a substantial amount of the evidence. It may safely be said that this presents the most important issue in the cases.
2. Property base. Much evidence was presented upon this issue but, upon final analysis, the various figures except as to overhead allowances run so closely together that the ascertainment of a reasonable property base is not a matter of great difficulty.
3. Probable future revenue. Upon this the evidence is sharply conflicting and calls for a nice exercise of judgment to avoid unfairness to the utility or injustice to the consumers.



4. Reasonable operating expenses commensurate with probable earnings. The items mainly in dispute are depreciation expense, almost always a highly controversial and intricate issue in rate cases, the treatment of gas cut-over expense, taxes and a few lesser items like donations and rate case expense.

5. Rate of return. But little evidence was introduced on this issue, the determination of which is largely a matter of sound judgment of the regulatory body.

6. Spread of rates. A surprisingly small amount of testimony was adduced to this issue. However, the record is replete with data as to consumer use, thus making it possible for the Commission to approximate closely the effect upon the revenue of the utility of any rate changes.

## PART I.

### BYLLESBY FEES AND CHARGES.

#### Intercorporate Relations.

Of the 100,325 shares of the common stock of the San Diego Consolidated Gas & Electric Company outstanding, 99,365 shares are owned by the Standard Gas & Electric Company, sometimes called the Standard Company. This control of the local Company by the Standard Company extends back to early days. The Standard Company is in turn controlled by the Standard Power & Light Company. E. M. Byllesby & Co. has a large interest in the latter company and "exercises perhaps the most important influence" in determining the policies of the Standard Gas & Electric Company.

In 1919 the Standard Gas & Electric Company caused to be organized the Byllesby Engineering and Management Corporation under the laws of the State of Delaware, with a stated capital of

\$1,000,000. represented by no par value shares. Various contracts of H. M. Byllesby & Co. with operating subsidiaries of the Standard group were turned over to the new company, and all of the stock of the new company was issued to the Standard Gas & Electric Company and placed upon the latter's books at a nominal value of \$1. (11)

Management and Engineering Contracts.

The Byllesby Engineering and Management Corporation has two contracts with the San Diego Company, both of date September 1, 1921 and effective until August 31, 1942. One of these calls for the performance of engineering services and the other for the performance of management services, the former being usually termed the engineering contract and the latter the management contract. Before the date of these contracts similar arrangements, although not expressed in formal contracts, existed between the local Company and the Byllesby Engineering and Management Corporation and prior to the incorporation of that company with H. M. Byllesby & Co. The fees paid under these contracts and the prior arrangements to the Management Company and to its predecessor will sometimes be referred to as the "Byllesby" fees or charges.

The standard form of engineering contract of the Byllesby Engineering and Management Corporation provides for the performance of general engineering services for the operating companies, for which services it receives a fee equal to 7½ per cent of the total cost to the operating company of all extensions, additions and improvements to the property. The fee is required to be paid even

(11) Placing the investment of \$1. was, according to Wm. J. Hagenah, a Vice-President of the Byllesby company "to give effect to the true value" of the contracts "which was merely nominal" \* \* "because they could have no greater value since they were the result of an inter-company affiliated transaction."

though the work is not engineered. The contract with the San Diego Company is in the standard form, except for the elimination of certain per diem fees.

The standard form of management contract of the Byllesby Engineering and Management Corporation calls for the general supervision and management of the property of the operating companies at a compensation of  $2\frac{1}{2}$  per cent of the gross revenue. The San Diego Company's contract is in the standard form, except for elimination of per diem fees. The management company pays the salary of the president of the San Diego Company, as well as that of the chief executives of the other operating subsidiaries, except at Pittsburg.

#### Variations in Rate of Compensation.

In the contracts with some of the operating subsidiaries in the Standard group, for one reason or another, the scale of compensation for services vary. The Louisville Gas & Electric Company, for example, pays under the management contract not  $2\frac{1}{2}$  per cent of its gross, but only 2 per cent. The Philadelphia Company and its subsidiaries under the engineering contract pays the  $7\frac{1}{2}$  per cent on developments which are engineered but only 2 per cent on developments which are not engineered, and pays but 1 per cent under the management contract. Table No. III gives pertinent statistical data respecting the operating utilities served by the management company and indicates the present rate of compensation collected for services rendered.

TABLE III

STATISTICAL DATA OF STANDARD GAS AND ELECTRIC COMPANY OPERATING  
SUBSIDIARIES (AND THEIR SUBSIDIARIES) AS TAKEN FROM ITS ANNUAL  
REPORT FOR 1933 TOGETHER WITH PRESENT RATE OF PAYMENT TO  
BYLLESBY ENGINEERING AND MANAGEMENT CORPORATION FOR  
ENGINEERING AND MANAGEMENT SERVICES

Name of Subsidiary (1)	Plant, Property and Franchises (2)	Gross Revenue (3)	Retirement Reserve (4)	Management Fee (5)	Engineering Fee (6)
The California Oregon Power Co.	\$ 34,152,252.27	\$ 3,605,473.26	\$ 2,017,594.98	2½%	7½%
Louisville Gas and Elect. Co. (of Delaware)	80,496,209.68	9,642,246.34	9,781,980.49	2%	7½%
Market Street Railway Co.	47,316,902.73	7,422,816.20	3,399,430.09	\$100,000.00	-
Mountain States Power Co.	20,819,757.37	2,694,756.63	104,629.91	1½%	7½%
Northern States Power Co. (of Delaware)	240,155,898.42	30,949,255.52	16,559,914.31	2½%	7½%
Oklahoma Gas and Elect. Co.	74,953,310.27	10,463,072.06	2,941,949.54	2½%	7½%
Philadelphia Company	346,607,420.84	44,752,852.18	52,260,231.61	1%	7½% - 2%
San Diego Consolidated Gas and Elect. Co.	38,909,340.37	7,038,022.48	6,891,234.17	2½%	7½%
Southern Colorado Power Co.	16,048,158.35	1,698,377.15	382,936.91	2½%	7½%
Wisconsin Public Service Corp.	48,909,275.57	6,777,030.71	3,229,089.93	2½%	7½%

NOTE 1: The two percentages shown for Engineering opposite the Philadelphia Company is 7½% on work performed by Byllesby Co. and 2% on work engineered by the operating company's own staff. The evidence tends to indicate that as to a street railway subsidiary of the Philadelphia Company it is on a flat fee like that of the Market Street Railway Company.

NOTE 2: The gross revenue figures in column (3) contain intercompany items aggregating \$1,223,270, subject to elimination. The report contains no data to show how the total elimination could be allocated as between subsidiaries.

NOTE 3: Management payments of Southern Colorado Power Company have been temporarily waived.

Over-all Profits.

In general, the servicing of these various operating subsidiaries of the Standard group has proven quite profitable to the parent company, to which is passed the entire net earnings of the management company.<sup>(12)</sup> From data of record and that contained in the recent report of the Federal Trade Commission, as to which it is stipulated this Commission may take notice, it is possible to develop a statement showing the income and expenses of the management company and of its predecessor H. M. Byllesby & Co. for the period 1909 to 1933, inclusive, (except for the year 1930 as to which there is nothing in the record.)<sup>(13)</sup> This is done in the following table:

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(12) This is illustrated in the income and expense statement of the Byllesby Company. In 1931, for instance, the receipts were \$4,361,817., the expenses were \$2,483,616., and the net profits which went to the Standard Company were \$1,878,200.

(13) Financial statements for 1931, 1932 and 1933 were presented in the course of the hearings. Data contained in the Federal Trade Commission report which became available after the close of the hearings ends with 1929.

TABLE IV.

INCOME AND EXPENSES OF EYLLESBY ENGINEERING AND  
MANAGEMENT CORP. AND OF ITS PREDECESSOR,  
H. M. EYLLESBY & CO. (EXCLUSIVE OF BANK-  
ING OPERATIONS) BY YEARS 1909 to 1933.  
(FIGURES FOR YEAR 1930 NOT AVAILABLE)

<u>Years</u>	<u>Gross Income</u>	<u>Expenses</u>	<u>Net Income</u>	<u>Per Cent Net Income to Gross Income</u>
1909	\$ 417,751.30	\$ 263,363.89	\$ 154,387.41	36.96
1910	1,006,016.79	683,274.49	322,742.30	32.08
1911	1,569,521.86	851,771.91	717,749.95	45.73
1912	1,520,736.76	956,903.08	563,833.68	37.08
1913	878,612.59	688,853.51	189,779.08	21.60
1914	596,205.01	421,653.92	174,551.09	29.28
1915	619,691.81	428,723.56	190,968.25	30.82
1916	904,190.33	623,811.80	280,378.53	31.01
1917	1,174,216.33	643,188.74	531,027.59	45.22
1918	1,155,571.48	605,558.21	549,813.27	47.59
1919	1,613,568.09	635,538.52	978,029.57	60.61
1920	1,770,569.60	821,632.05	948,937.55	53.60
1921	1,877,147.87	784,982.21	1,092,165.66	58.18
1922	2,341,474.98	965,445.40	1,376,029.58	58.77
1923	2,990,751.33	1,340,228.19	1,650,523.14	55.19
1924	3,751,776.82	1,829,496.60	1,922,280.22	51.24
1925	3,336,370.82	1,895,188.79	1,441,182.03	43.20
1926	4,042,730.48	2,466,731.33	1,575,999.15	38.98
1927	5,003,808.02	2,952,000.97	2,051,807.05	41.00
1928	4,619,110.94	3,060,357.55	1,558,753.39	33.75
1929	4,865,577.91	3,103,592.89	1,761,985.02	36.21
1931	4,361,817.57	2,483,616.73	1,878,200.84	43.06
1932	3,154,460.56	2,007,536.65	1,146,923.91	36.36
1933	2,596,067.62	1,597,080.35	998,987.27	38.48
<b>Total</b>	<b>\$56,167,546.27</b>	<b>\$32,110,511.34</b>	<b>\$24,057,035.53</b>	<b>42.83</b>

Payments by San Diego Company.

Between 1915 and 1933 there was paid by the San Diego Company to the Byllesby Engineering and Management Corporation and its predecessor, E. M. Byllesby & Co., under the engineering and management contracts or arrangements referred to, a total of \$4,678,617., the amount paid prior to that time not being indicated in the record. A portion of this is now reflected on the books of the local company as capital overheads. According to Mr. Kuhn, head of the valuation department of Byllesby Engineering and Management Corporation, there is included in his historical appraisal of the property of the San Diego Company as of December 31, 1933 (which appraisal comes to within a few thousand dollars of the books), the sum of \$2,474,722. for Byllesby engineering fees in the total overheads of \$4,692,854.<sup>(14)</sup>

It is in respect to this amount of \$2,474,722. and the amount payable annually under the management contract and claimed as an operating expense that issue is raised. The latter amount for the year 1933 amounted to approximately \$175,000.

Right to Review Conceded.

No question is raised as to the authority of this Commission to review these contracts and the charges made under them. The Standard Gas & Electric Company, its operating subsidiaries and the affiliated management company are "so closely related through the holdings of securities, and through, in many instances, common officers and directors," that, according to Mr. Hagenah "the legal fiction \*\* of independent corporations may very well be disregarded, because in practical effect and operation they are and have always

<sup>(14)</sup> This figure is excessive by a small amount by reason of a subsequent minor correction of the historical appraisal. (See Table VI.)

been intended to be one single entity." As to the management and engineering contracts there is, according to Mr. Hagenah, "a mutuality and interconnection and affiliation which requires and always has required that the contracts between the Byllesby Engineering and Management Corporation and the operated companies should receive publicity and receive the scrutiny of the public authorities. \* \* \* It is frankly admitted now, as it always has been, that the relationship is one which calls for careful examination by public authorities. \* \* \* I believe that your commission here and every public agency should examine these inter-company relations with great care, to the end that no unfair advantage be taken by one company or another company which would result in an unjust burden on the rate payers."<sup>(15)</sup>

Indeed, the right and duty of the Commission to scrutinize these inter-company relations here before it and to make appropriate findings respecting the cost of the service rendered could hardly be brought into question in view of the rapid development in recent years of a body of judicial and commission precedent respecting such inter-company relations and transactions.

#### Development of Modern Rule.

In 1922, the Supreme Court in Missouri ex rel. Southwestern Bell Tel. Co. v. Pub. Serv. Com., 262 U.S. 276, disapproved the action of the Missouri Commission in reducing by fifty-five per cent the 4½ per cent charge on gross revenue of the American Telephone and Telegraph Company. Speaking by Mr. Justice McReynolds, it was said:

(15) In a brief filed herein on behalf of the Byllesby Company by Mr. Hagenah as its Vice-President and Counsel, it is further specifically admitted "that in respect to all necessary disclosures as to both terms and cost, the burden of proof is on the parties to the contract."



"Four and one half per cent is the ordinary charge paid voluntarily by local companies of the general system. There is nothing to indicate bad faith. So far as appears, plaintiff in error's board of directors has exercised a proper discretion about this matter requiring business judgment. It must never be forgotten that while the state may regulate, with a view to enforcing reasonable rates and charges, it is not the owner of the property of public utility companies, and is not clothed with the general power of management incident to ownership."

While the doctrine then laid down rendered largely ineffective efforts of state regulatory bodies to control and limit holding and management company fees, resistance to this type of charges did not die out; and the attitude of the Supreme Court towards them has gradually changed. A few years later there reached the Court a case attacking as confiscatory a rate order of the Railroad Commission of Kentucky fixing natural gas rates. One of the grounds of attack was the inclusion in gross revenue of 50 per cent of the net profits of an affiliated company which under contract extracted gasoline from the natural gas, the attacking company receiving one-eighth of the gross profits on the gasoline extracted. In that case, in United Fuel Gas Co. v. Railroad Com. of Kentucky, 278 U.S. 300, decided in 1928, the court sustained the inclusion in revenue of this 50 per cent of the affiliate's net profits. A public service corporation, it was said, "may not make a rate confiscatory by reducing its net earnings through the device of a contract unduly favoring a subsidiary or a corporation owned by its own stockholders."

The next important case reaching the Supreme Court was that of Smith v. Ill. Bell Tel. Co., 282 U.S. 133, decided in 1930. Rates fixed by the Illinois Commerce Commission were attacked as confiscatory. They were enjoined by the district court. On

appeal the order of the district court was reversed and the case sent back for specific findings on (1) the net earnings of the Western Electric Company (a subsidiary, as was the Illinois Bell Company, of the American Telephone and Telegraph Company) in relation to the manufacture and sale of telephone equipment and "the extent to which, if at all, such profit figures in the estimates upon which the charge of confiscation is predicated" and (2) the cost of services rendered by the American Company to its subsidiary and "the reasonable amount which should be allocated in this respect to the operating expenses of the intrastate business of the Illinois Company."

Western Distributing Company v. Pub. Serv. Com. of Kansas.

285 U.S. 119, decided in 1932, involved the gate-way gas rates charged by an affiliated company. It was held that the operating company, in view of the affiliation between the buyer and the seller, must offer satisfactory evidence "with respect to all the cost which entered into the ascertainment of a reasonable rate." In view of the common control, a showing that charges similar to those at issue were made at other places and that no supply elsewhere could be obtained at a lower price were held not to make even a prima facie case. Smith v. Ill. Bell Tel. Co., supra, was cited and not earlier cases like Missouri ex rel. Southwestern Bell Tel. Co. v. Pub. Serv. Com., supra.

Dayton P. & L. Co. v. Pub. Util. Com., 292 U.S. 290, decided on April 30, 1934, likewise involved the gate-way charge for gas by an affiliated company. "There is no doubt under the decisions of this court", it was said, "that the Commission was not concluded by the price fixed in the agreement." The value of the property of the affiliated seller as well as its expenses, including a service fee to a management company (which had been reduced), were considered at some length and the reduction of the gate-way charge for gas from

45 cents to 39 cents was sustained. "The burden of proof was on the buyer of the gas", it was held, "to show that in these transactions with the affiliated seller the price was no higher than would be payable in a regulated business by a buyer unrelated to the seller and dealing at arms length." To determine the fairness of the gate-way rate "there has been need", it was said, "to consider the assets and the expenses of the affiliated seller, for only thus has it been possible to estimate a fair return."

At the same term of court in another gas case arising in Ohio (Columbus Gas & Fuel Co. v. Pub. Util. Com., 292 U.S. 398), it was again necessary to consider inter-company contracts between affiliated companies, and it was held that the "intercorporate agreement does not control the price to be paid by the consumers if the rate thereby established is higher than a fair return."

It is true that in the early days this Commission allowed the Byllesby charges (Re S.D. C. G. & E. Co., 11 C.R.C. 735; see also Re Western States Gas & Elect. Co., 24 C.R.C. 677). However, this Commission, like the courts, has gradually evolved a far stricter standard of appraisal and treatment of affiliated corporation charges. In Re L.A. Gas & Electric Co., 35 C.R.C. 442, a holding company fee was eliminated from operating expenses. Similar action was followed in Re San Joaquin L. & P. Corp., 37 C.R.C. 531. In Re Coast Counties G. & E. Co., Dec. No. 25325 in Case No. 3326, decided on November 7, 1932, certain management and engineering fees were reduced by 50 per cent.

#### Rule a Sound and Practical One.

While court and commission have firmly established cost (and cost, of course, includes a reasonable return on investment or

property) as the controlling factor in accounting for holding or management company fees, there are persuasive reasons of a practical nature supporting the rule. Cost is tangible and may be ascertained with reasonable precision. This may not be said of other suggested standards of evaluating such fees. Again, granting that services such as are here involved are of a valuable nature, (See Smith v. Ill. Bell Tel. Co., supra) the same characterization may be made of services rendered by the engineering, the fiscal, the purchasing, the operating, and other departments of the various great utilities in this State which operate independently. Nevertheless, in the year by year process of regulation of these utilities the cost of such services has universally been used as the basis of operating expense allowances and in building up historical property bases. To allow an affiliated corporation profit on top of the cost of the service, where the affiliates "are and always have been intended to be one single entity" would not only bring about an inconsistency in treatment of utilities but would be a positive discrimination against those independently operated.

#### Management Company's Property.

The Byllesby company has no physical property except office furniture and equipment. The cost of this is not definitely shown and no point is made respecting a return upon its cost or value. The company is essentially a personal service organization. Salaries of officers and employes, which although liberal are not claimed to be excessive, constitute the bulk of the cost of rendering services

to the various operating subsidiaries of the Standard group. <sup>(16)</sup>

System Over-all Costs.

To the extent Byllesby system costs and profits afford an indication of the cost of services furnished the San Diego Company, system results as depicted in Table IV may not be taken without qualification. In the first place the San Diego Company pays the full engineering and management fees. <sup>(17)</sup> Other operating companies do not. Again the management company performs certain fiscal services for the Standard Gas and Electric Company for which it does not charge. <sup>(18)</sup> It is conceded that there should have been a charge for this service. <sup>(19)</sup> If it be assumed that during the years 1931, 1932 and 1933 all of the operating companies had paid on the same basis as did the San Diego Company the relationship of net revenue to gross revenue would have been substantially higher than indicated in Table IV. for these years.

<sup>(16)</sup> For the years 1931, 1932 and 1933 salaries amounted to 80.3 per cent of the reported expenses. Taking the year 1931 as an example, expenses are listed as follows:- General Expense, \$82,400.; Salaries, \$2,023,829.; Rent, \$183,570.; Depreciation-Furniture and Fixtures, \$34,436.; Taxes, \$20,560., and Miscellaneous Items, \$138,819.

<sup>(17)</sup> Certain per diem fees paid by other subsidiaries are not paid by the San Diego Company.

<sup>(18)</sup> These consist in part, for instance, of making out and mailing all dividend checks. This same service for the operating subsidiaries is covered by the management contract, but in the case of the San Diego Company, because of its distance from Chicago, it is not furnished.

<sup>(19)</sup> Mr. Lynch, head of the fiscal department of the Byllesby Company, estimates the cost of the service rendered the Standard Company at \$50,000. a year.

Furthermore, commencing with the year 1926, and in some years at least, the Byllesby Engineering & Management Corporation paid Federal income taxes upon its net earnings before passing the remainder to the Standard Company. Prior to that time the earnings had been passed to the Standard Company which reported and paid the tax. To determine the over-all system cost of rendering the service some account must be taken of this fact.

System revenue and expense have been to some extent departmentalized. Engineering fees, for instance, collected on projects not engineered are not, as a matter of interdepartmental accounting, credited to the engineering department but to the operating department. Referring to the relationship between construction actually engineered, on which the 7½ per cent fee went to the engineering department, and construction not engineered, on which the 7½ per cent fee went to the operating department, the following language contained in the Federal Trade Commission report is pertinent:

"In the departmental income statement presented in Text Table 5, Chapter II of this report, income from engineering ("construction") fee was shown for both the Engineering and Construction Department and for the Operating Department. It is assumed that the engineering fee income credited to the Engineering and Construction Department included the entire income from engineering fees on construction engineered by that department. If that assumption is correct, the proportion of all construction that was construction on which the Engineering and Construction Department did not function ranged from 21.3 per cent in 1921 to 74.9 per cent in 1923 and averaged 50.2 per cent of all construction during the entire period 1919 to 1929 inclusive."

Cost of Service Furnished San Diego Company.

The cost to the Byllesby organization of the engineering services furnished the local company may be closely approximated,

but, according to Mr. Hagenah, the cost of the managerial services so furnished is not available. (20)

The history of the local company, it may be pointed out, does not disclose problems of extra-ordinary difficulty or complexity. The local officials seem to have been and to be men of conspicuous ability. Under these circumstances it would not be surprising if the costs of the service rendered to this company as related to the fees paid should be less than the system average. The record plainly indicates that they were as to engineering fees.

Cost of Engineering Service Furnished.

That the cost of rendering to the local company the service covered by the Engineering contract or arrangement was less than one-half of the amount paid by the local company and distributed

(20) Thus Mr. Hagenah testified as follows:

"Q. Will you have a statement showing the cost of rendering that service to San Diego Consolidated? A. No, sir, the accounts of the Corporation are not so kept as to show the management or operating expenses incurred for each of the client companies; but all the engineering records are so kept so that we can show precisely the expenditures on each engineering undertaking or project for the local company."

And later he testified:

"The engineering fee is distributed according to the actual engineering. That comes pretty close to accurate cost accounting."

Also:

"I don't like the 2½ per cent on gross earnings basis any more than you do, and if anybody can give me any suggestion of a better basis I am open to receive it for the most serious consideration. It is so easy to criticize it, and often in that criticism we join, and I would like to know how to make it better.

That forces me to this conclusion, Mr. Commissioner, that, since the cost of rendering this service of our company is an average of 60 per cent of the revenue we receive, I think the best possible cost analysis which can possibly be made would indicate that the cost of the service rendered to the San Diego Consolidated Gas and Electric Company, for which it receives fees, is 60 per cent of the amount that that corporation pays. Now, any other basis of cost analysis or distribution will give you a little more or a little less, according to the basis that you use, but I don't see how you can get materially away from that."

to its capital accounts is clear. For the period 1916 to 1933, inclusive, there is a wealth of data in the record respecting cost. The amount collected is not a subject of controversy. The situation during the years prior to this period is not particularly important. There is, however, nothing to indicate that the experience then was essentially different from the experience during the period when over 90 per cent of the property now in the system was installed. (21)

The City insists that over 63 per cent of the payments on account of engineering services and which found their way to the books as overhead charges represented clear profit to the affiliated interests. The computation by which this result is reached was presented at the oral argument. The only serious criticism of it in the written briefs subsequently filed was that the experience for the period 1927 to 1932, inclusive, respecting which detailed figures were presented, was not representative of the entire period and that sufficient weight was not given to the cost of services of a general nature. This specific data was offered originally as being repre-

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(21) According to Mr. Kuhn's historical appraisal but \$3,362,687. of this early property is now in the system. This figure includes the full Byllesby charges in overheads.



sentative of the period 1916 to 1933. (22) Counsel for the company in a written brief also rather seeks to discredit the evidence as to costs adduced by the Company. (23)

It is admitted that during the period 1916 to 1933, inclusive, "the gross amount of payments (by the San Diego Company) to the management corporation (and to its predecessors) charged to construction" was \$2,470,086. It is also admitted that \$854,944. of this amount represents the payments upon projects specifically engineered by the Byllesby organization for the local company. This latter amount fully covered the cost of the engineering work, except for certain general engineering services both to the local company and for all of the operating subsidiaries and of

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(22) Mr. F. H. Lane, head of the engineering department of the Byllesby organization, testified:

"MR. TILLMAN: Do you think that in the period prior -- between 1916 and 1927, the ratio between income of the engineering department on projects actually supervised and designed by the engineering department, the ratio between income and expense, was any greater, any different, than during the period 1927 to 1932 shown in your exhibit?

A. What you want to know is whether I think we made a profit in 1916 to 1927 on specific projects?

Q. Yes, just whether that is a fair sample of the whole period or whether it should be varied? A. I think it is; I think it is representative of the average run of our operations.

Q. And you feel that the same items taken from 1916 to 1933 would have shown approximately the same result?

A. A similar analysis of all the work done from 1916 to 1927 would have shown substantially the same result, in my judgment. We have up and down periods all along the line which ought to have evened the thing out.

Q. And in view of that fact, then, the \$854,000. odd figure shown on page 11 would compensate the Byllesby Engineering and Management Corporation for all engineering department services in connection with capital additions to the local company, designed and supervised by the Byllesby Company, would it not? A. That is a fair statement, yes."

(23) Thus counsel say "As a matter of fact, there are no credible cost figures in the record of this case and furthermore they cannot be obtained over this company's entire history."

which the San Diego Company should bear its fair proportion. Since a part of the services contemplated by the engineering contract was that rendered by the purchasing department maintained by the management company it is appropriate that a portion of the cost of this department should be considered in determining the cost of the engineering service rendered at San Diego.<sup>(24)</sup> There is, of course, a small investment in furniture and office equipment upon which the management company has been entitled to earn a return. Adding to the figure of \$854,944. a liberal allowance for these added elements of cost, it is impossible to escape the conclusion that the cost to the management company during the period 1916 to 1933 of all services, payments for which found their way into capital overheads, did not exceed 45 per cent of the \$2,470,086. collected. The same conclusion may reasonably be applied respecting payments prior to 1916, a small amount of which still remains on the books as overheads.

Mr. Kuhn testified with great definiteness that the sum of \$2,474,722. represented Byllesby fees included in his total overhead allowances. His figures, as subsequently pointed out, are almost precisely the book figures. Fifty-five per cent of this is, in round figures, \$1,360,000., which sum represents the minimum amount which must be deducted from the total overheads used by Mr. Kuhn in his historical appraisal, in order to eliminate the element of intercompany profit contained in such overheads and place them on the basis of actual cost to the family of affiliated corporations.

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(24) The present payroll of the purchasing department is about \$50,000. a year, only a part of which could be assigned to San Diego.

Cost of Managerial Services Furnished.

Since there is nothing in the record establishing the actual cost of the management services as furnished to the local company, it becomes necessary to estimate the cost upon the assumption that on the average the relationship between the amount paid and cost at San Diego is the same as the relationship between either (1) the actual Byllesby system income under the management contracts and the system cost, or (2) the assumed income on a uniform  $2\frac{1}{2}$  per cent basis of payment by all operating companies and the system cost. As the purpose is to secure a basis for estimating reasonable operating expenses for the near future, it is the recent relationship that is important. The city contends that a system relationship is not representative unless all operating companies are assumed to have paid on the same basis as did the San Diego Company, and submits a computation constructed upon this theory which is set forth in the

(25)  
 footnote. The management company, with some show of reason, urges that actual charges as collected from the various operating companies have been equitably assessed and that hence they should be used as a base. Either basis of computing the system relationship shows the management services to have been extraordinarily profitable. Giving due weight to the contentions of the parties and to facts of record, it may safely be concluded that an allowance in operating expenses of \$70,000. a year will fully cover the cost of the managerial services.

(25) The City's computation is as follows:

	<u>1931</u>	<u>1932</u>	<u>1933</u>
"Income of Standard Gas and Electric Co. Subsidiaries Ex. 115, p. 23 .....	\$145,176,038.	\$131,432,176.	\$124,082,525.
Management Fees Computed at 2½ per cent .....	3,629,401.	3,285,804.	3,102,063.
Operating Expenses Ex. 118 .....	2,483,617.	2,007,537.	1,597,080.
Deduct:			
Cost of Engineering Service .....	1,158,805.	785,915.	439,387.
Cost of Services performed for Standard Gas & Electric Co. ...	50,000.	50,000.	50,000.
Wisconsin State Income Tax-Tr. 3566 .....	16,900.	16,633.	7,755.
Oklahoma Income Tax - Tr. 3567 .....	---	4,787.	6,342.
Investigation Expenses, Ex. 118, Tr. 3568 .....	8,824.	2,494.	---
Uncollectible Accounts, Ex. 118, Tr. 3585 .....	3,822.	---	---
Net Cost of Management Service	1,245,266.	1,147,708.	1,093,596.
Ratio Net Cost of Management Service to Income from Management Fee Computed on basis of 2½ per cent. for all properties	.343	.349	.353

\* \* \* \* \*

Use as Estimated Cost of B. E. & M. Corp. Management - \$63,500. per annum."

PART II  
PROPERTY BASE

Introductory and General.

A mass of data was presented bearing upon the property base upon which a return should be allowed. In one respect very small differences as between the parties developed, everyone being in substantial accord as to additions and deductions to the base as of December 31, 1933 for current additions and betterments, materials and supplies, working cash, organization and cost of franchises and the treatment of consumers' advances and donations. (26) Reference will be made to these various items at an appropriate point. As a matter of convenience consideration will first be had of the various claims respecting the base as of December 31, 1933.

The following tables indicate the claims and contentions which must be considered and reconciled. Some difficulty has been experienced in making the claims entirely comparable, as the City in its estimates excluded certain property as non-operative. However, the figures in the table, as nearly as may be ascertained, apply to identical property, although some of the property to which they apply is claimed by the City to be non-operative.

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(26) Curiously, the additions and deductions largely offset each other. The conclusions as to the base as of December 31, 1933 will closely approximate the base upon which a return is to be calculated and allowed.

TABLE V.

COMPARATIVE VALUATION ESTIMATES FOR STRUCTURAL  
PROPERTY UNDEPRECIATED, EXCLUSIVE OF LAND  
AND OVERHEADS AS OF 12-31-33.

	Electric	Gas	Steam	Combined
<u>Historical Cost:</u>				
(1) Smiley (City)	\$20,142,909.	\$10,876,811.	\$211,253.	\$31,230,973.
(2) Kuhn (Co.)	20,576,496.	10,795,129.	238,485.	31,610,110.
<u>Rep. Cost New:</u>				
(3) Smiley (City)	\$19,048,219.	\$10,762,548.	\$272,284.	\$30,083,051.
(4) Kuhn (Co.)	20,741,699.	11,057,441.	283,495.	32,082,635.

Note (a) Provisions and contingencies are made a part of the construction overhead in the City's appraisal, while in the Company's they are added to the base cost before overheads in the amount of \$243,473. on the historical, and \$243,931. on the reproduction basis.

Note (b) The City's figures reflect a lesser amount for transportation than appears on the Company's books. The Company figures include all of this expense, but a blanket deduction of \$80,392. is made by the Company from the rate base to provide for excessive accruals.

TABLE VI.

COMPARATIVE OVERHEADS IN AMOUNTS AND PERCENTAGES  
ON THE STRUCTURAL PROPERTY SHOWN IN TABLE NO. V.

	Electric Amount	Gas Amount	Steam Amount	Combined Amount	Per Cent.
<u>Historical Cost:</u>					
(1) Smiley (City)	\$1,845,809.	\$ 926,577.	\$20,270.	\$2,792,656.	8.94
(2) Kuhn (Co.)	3,186,529.	1,487,259.	16,928.	4,690,716.	14.84
(3) Incurred Over- heads with intercompany profit eliminated				3,331,000.	10.54
<u>Rep. Cost New:</u>					
(3) Smiley (City)	\$3,279,607.	\$1,850,710.	\$51,036.	\$5,181,353.	17.16
(4) Kuhn (Co.)	3,998,173.	2,054,983.	48,606.	6,101,762.	19.02

TABLE VII.  
COMPARATIVE LAND VALUES  
(INCLUDING EASEMENTS AT COST)  
AS OF 12-31-33.

	Electric	Gas	Steam	Combined
<u>Original Cost:</u>				
(1)&(2) Kuhn (Co.)	\$717,492.	\$331,430.	\$4,622.	\$1,053,544.
<u>Market Value:</u>				
(3) Hunt (City)	706,234.	437,395.	992.	1,144,711.
(3) Aber (City)	470,523.	295,329.	699.	766,551.
(4) Simmonds (Co.)	694,628.	423,995.	4,395.	1,123,018.

Cost.

Mr. Kuhn's historical estimate is in reality an inventory check against the Company's books. The figure which he reached, the books and the Commission figure of 1915 with net additions and betterments added, are so close that for all practical purposes they may be taken as identical. (27)

The historical reproduction estimates of the City are entitled to little or no weight and are chiefly interesting because so far as the aggregate base cost is concerned it coincides so closely with the books.

The conclusion is inescapable that the actual cost of the property as of December 31, 1933, with the element of intercompany profits as they are contained in overheads eliminated, was in round figures \$36,000,000.

Value.

Because of the position assumed by the utility it becomes necessary to depart from the field of cost where definite and precise conclusions may be reached and to enter the realm of estimate

(27) Mr. Kuhn's figure is \$37,354,370. The books show \$37,363,085. The Commission's 1915 base plus net additions and betterments comes to \$37,374,077.

(28)

and conjecture to test the adequacy of cost as a measure of value. (See Wheeling v. Nat. Gas Co. (W. Va.) 175 S.E. 339.) At the very threshold of this realm it is appropriate to point out that the physical property of this utility (comparable with that referred to in the tables) as reflected upon its books was, in 1916, approximately \$5,500,000. At the end of 1933 it had increased to some \$37,300,000. The rate and period of growth is indicated by Table I.

It is a matter of common knowledge that commencing in 1930 the United States entered upon such "a depression as to constitute 'a new experience to the present generation.' It was not the usual case of possible fluctuating conditions but of a changed economic level." (A.T. & S.F. R. Co. v. U.S., 284 U.S. 248; Los Angeles Gas & Elect. Corp. v. Railroad Com., 289 U.S. 287.) In Central Kentucky Nat. Gas Co. v. Railroad Com., 290 U.S. 264, decided on December 4, 1933, the court through Mr. Justice Stone spoke of "the profound changes in values \*\* and reasonable return on invested capital which we judicially know took place during the period of more than five years while the case was pending before the commission and the court."

The gravity and extent of this changed economic level is graphically depicted in the generally published charts of such agencies as the Federal Reserve bank, the United States Department

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(28) Actual cost of course "is good evidence of the value" of a utility system at the time of its construction and "will continue fairly well to measure the amount to be attributed to the physical elements of the property so long as there is no change in the level of applicable prices." (Los Angeles Gas & Elect. Corp. v. Railroad Com., 289 U.S. 287.)



of Labor, the Engineering News Record and other recognized statistical services. While such charts and data furnish no sufficient basis for the translation of costs of the past into costs of the present they do indicate the need of caution in considering and weighing mere estimates of what it would now cost to reproduce a property that has actually been developed over a period of years.

The theoretical reproduction of a large utility property such as this necessarily requires an infinite variety of assumptions - some logical, many not convincing. New construction has fallen off with this and other utilities. Hence no actual "experience in a recent period" is available as a "check upon extravagant estimates." (Los Angeles Gas & Elect. Corp. v. Railroad Com., supra.) Careful and unbiased estimators in figuring such a large and complex job with no recent experience to serve as a guide would naturally vary considerably in their final results.

As to the City's reproduction appraisal, it is subject to criticism in many particulars and may be accorded little or no weight. The Company's reproduction estimate was based upon spot prices as of the end of 1933. A floating two year construction period was assumed. Price quotations were obtained by the Byllesby

organization for inventoried materials. <sup>(29)</sup> Land was included at its value as estimated by the Company's appraiser but 13.97 per cent was added for overhead. Costs of clearing sites were reproduced. Local material prices were increased because of the State sales tax. The overhead charges used were in the aggregate much higher than have been experienced by the Company. It was assumed that the Byllesby organization or some engineering contractor would do the job.

Cost of reproduction, of course, "is a guide but not a measure" of value and "an intelligent estimate of probable future values \* \* \* and even indeed of present ones, is at best an approximation." (Dayton P. & L. Co. v. Pub. Util. Com., supra.) Price quotations elicited with no contemplation of an actual sale are by no means indicative of what quotations might be if tendered in the hope of participating in a real transaction. It is far from clear that some of the theoretical costs assumed and estimated are true

(29) The following is one of three similar letters introduced in evidence as typifying the procedure followed in obtaining price quotations:

"January 31, 1934

"The Air Preheater Co.,  
c/o D. E. Skeen & Co.,  
One North LaSalle St.,  
Chicago, Illinois.  
Gentlemen:

Attached herewith you will find a list of equipment now installed on the property of the San Diego Consolidated Gas and Electric Company at San Diego.

This equipment was purchased from your company and our Valuation Department now requests that we secure from you prices on this equipment as of December 31, 1933.

Prices should be f.o.b. San Diego. We would like also to have the price of the equipment delivered and erected on our foundations.

Kindly submit this information to us in triplicate.

Yours very truly,

BYLLESBY ENGINEERING & MANAGEMENT  
CORPORATION

(Signed) By R. C. Wenz  
Assistant Purchasing Engineer."

increments of value. (See Dayton P. & L. Co. v. Pub. Util. Com.,  
520 P.2.)

There is here present another element bearing upon value which must be considered, namely, the matter of non-operative property. Just when property constructed in good faith becomes no longer useful in serving the public is a nice question ever difficult of determination. Its approach to this category may usually be observed, but the precise point of time when its status changes is a matter of judgment. Under the basis of testing the reasonableness of rates long adhered to by this Commission, namely, the historical cost basis, the tendency has been to resolve doubts in favor of treating property as operative even though it was close to if not upon the line where it should undergo a change of status; and when declared to be non-operative, and existing reserves were inadequate to absorb its retirement from capital, provision has been made for its amortization.

The City contends that about one-third of the Company's general office building and the land occupied by it, Station "A"

of the electric department, the Oceanside gas plant and a few lesser items aggregating in cost over three quarters of a million dollars should be eliminated from operative property. The Commission is not prepared to make such eliminations so far as a historical cost set-up is concerned. However, it is impossible to overlook the effect which the status of this property sought to be eliminated has upon value.

The Company in its reproduction estimates reproduces the identical property historically appraised, including the items just mentioned. It is of course inconceivable that all of the property would as a practical matter be reproduced. Inefficient units, property of doubtful utility, property more extensive than presently needed, extensions made in good faith but which have not proven profitable (the evidence shows there are such) would be discarded, reduced in size, or have less costly substitutes provided, were the system to be reconstructed.

Enough has been said to indicate that there is nothing unfair to the utility in taking actual cost as a measure of the fair value of its physical property prior to making appropriate deductions therefrom for accrued and realized depreciation. Indeed, a figure below actual cost would not be unreasonable.

#### Accrued Depreciation.

Except for the position assumed by counsel for the utility it would be unnecessary to consider the matter of accrued deprecia-

tion. (30) It has long been the practice of the Commission to allow for the expense of depreciation on the sinking fund basis. As a concomitant to this a return has been allowed on a property base without deduction for accrued or realized depreciation. The reason for this has been that the utilities have been required to supplement the sinking fund annuity by accounting for interest on the depreciation reserve. The reserve has generally been invested in the property and by allowing a return on an undepreciated base the reserve has earned its interest requirements. This method has been followed with this as well as with practically every major gas and electric utility in the State.

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(30) At the hearing on October 2, 1934 the presiding Commissioner suggested to counsel that if the parties would indicate by their answers to two questions their respective positions the proceedings might be greatly shortened and simplified. These questions were:

"First, having in mind the history of the utility, previous fluctuations of price levels, the present level and the probable future level, will it be reasonable for the Commission in these cases to employ the reasonable historical cost of the property, and by that I mean such cost to the agency which actually constructed the property, as the most accurate and representative test of the fair value of the property for rate-fixing purposes, appropriate additions being made for cash and working capital and the question of whether or not deduction is made for realized depreciation being dependent upon the basis of treatment of depreciation expense; and

Second, should the Commission here, in determining the amount to be allowed for depreciation expense, use the sinking fund method, and by that I mean make no deduction from original cost for realized depreciation but at the same time requiring the Company to account for, or assume it will account for, interest upon its depreciation reserve, so that such interest will augment the amount currently available for depreciation expense?"

A partial answer was made by counsel for the company at the oral argument as heretofore pointed out. In his written brief it is claimed that straight line depreciation expense must be used with a fair value base - a claim which logically may best be treated under depreciation expense.

The depreciation reserve of the utility on December 31, 1933 was \$6,891,234., which was exclusive of a special reserve for automobile and special tools.<sup>(31)</sup> This reserve was equal to 20 per cent of the then actual cost of the depreciable property. Mr. Kuhn, a witness for the Company, estimated the accrued depreciation as of the same date deductible from his reproduction new appraisal at \$7,424,657. This figure included the accrued depreciation on automobiles and tools which should be deducted to make his estimate comparable to the reserve built up by the utility. After making the deduction, Mr. Kuhn's figure is \$7,294,126., which is equal to 19.5 per cent of his estimated reproduction new cost of the depreciable property.

Mr. Kuhn's estimate was based upon inspection and was intended to reflect lessened value from physical wear, tear and deterioration. Except in the case of Station "A" he estimated no lessening of value for functional reasons, such as obsolescence inadequacy or public requirements. His figure was purely a matter of judgment arrived at from inspection and

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(31) The Company maintains a special reserve, which is not even called a reserve, for automobiles and special tools. Accruals, in the main at least, are made on a straight line basis. Such accruals are spread as a cost to new construction and operation as such equipment is used, so that the expense of depreciation of this movable and rapidly depreciating property is buried in capital or operating expense and covered and provided for in this way. This method of treatment is appropriate and fair provided the accrual is at a proper rate and the amount of a reasonable reserve be deducted in reaching a final property base. This is recognized by the Company, which does make a deduction for this special reserve after certain operating and capital adjustments to care for over-accruals. The amount of this reserve is included in the figures appearing in the last column in Table II.

without giving weight to the actual retirement experience of the Company. Since in expense full provision is made to protect the Company for the consumption of capital in service, whether resulting from physical deterioration or functional causes, it would seem that Mr. Kuhn has, in theory at least, employed too narrow a base in arriving at his result. (Wheeling v. Nat. Gas Co. (W. Va.), supra.)

The amount of accrued depreciation in an extensive utility property cannot of course be expressed with exactitude. It must necessarily be an approximation. Since the reserve and Mr. Kuhn's figure for accrued depreciation, adjusted as above noted, each bear an almost identical relationship to depreciable property base to which pertinent when expressed in percentage (Mr. Kuhn's figure is applicable to a higher base than is the reserve) it may safely be concluded that the accrued depreciation in the property, as of December 31, 1933, was but slightly less than the amount of the reserve, this being exclusive of depreciation on automobiles and special tools, which is specially treated.

It is more difficult to express this depreciation as of the year 1935, by which time the depreciable property will have been increased by some \$435,000., the reserve will have increased by some \$900,000., and the property as a whole will be more than a year older. Counsel for the Company in his brief recognizes the necessity for a slight increase because of additions and betterments but seems to have overlooked entirely the effect of the aging of the property as working a decrease in value and consequent increase in the amount of depreciation accrued. Having in mind that the depreciation reserve is probably excessive at the present time, it is concluded that as of 1935 the sum of \$7,250,000. should be deducted for accrued depreciation. This is obviously the least

amount which may reasonably be used to evaluate this element.

Such a conclusion is consonant with the basis long observed by the utility in respect to the operating expense of depreciation. Were the basis and theory of treatment of depreciation expense different, a different method or basis of measuring accrued depreciation would become necessary to avoid illogical and unjust results, as subsequently pointed out in the treatment of depreciation expense.

#### Going Value.

The Company, through Mr. Jacobs, a consulting engineer employed both by the utility and by the management company, advanced a claim to going value in the sum of \$4,000,000., \$3,000,000. of which he allocated to the electric department and the balance to the gas and steam departments. Expressed in the form of percentages, these amounts represent approximately 15 per cent of the depreciated actual cost of the electric property and 10 per cent of that of the gas and steam property, or an overall of over 13 per cent of such cost of the combined properties less depreciation.

The witness defined his concept of going value as "that element of value attaching to a public utility over and above its physical properties, its organization expense, its patent rights and franchises, by reason of the fact that it has an established business producing revenues, with a trained personnel and management, and with all the elements of the business, physical and otherwise, adapted, organized and coordinated and fully functioning as a going concern, with the ability to earn a reasonable return." The witness was of the opinion that the Company should not under existing conditions ask for an additional return upon the intangible element



of value if given a fair and reasonable return upon "the historical cost of the Company's physical properties" plus a reasonable allowance for organization, working capital and miscellaneous additive items. From the standpoint of "fair value", however, he could not "escape the fact \* \* \* that going concern is a proper item for inclusion in the so-called rate base." New business expense, in the witness's opinion, produces a capital asset on the fair value theory. Prior expenditures, including new business expense, have, according to him, "aided to bring about the condition of the properties and business as a going concern today."<sup>(32)</sup> The Company having earned a full return "full compensation for any development cost has been

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(32) Thus, Mr. Jacobs testified as follows:

"Q. Does going value result from the expenditure of money?

A. Not necessarily; values may exist without expenditures to produce them.

Q. Can going value -- or does going value of this utility exist without the prior expenditure of money by this Company? A. As I have stated, certain prior expenditures made have added to the -- aided to bring about the condition of the properties and business as a going concern today.

Q. What other class of expenditure would you include in that category besides new business expense? A. I would include the kind of expenditures that have resulted in the building up of the personnel organization, routine methods of doing business and the elements which I think I stated in my direct examination were involved in the concept of going value.

Q. And you have made no computation to determine what the cost, for example, of training and developing the personnel of this Company has been? A. No.

Q. Where are the costs for those matters which you have just mentioned charged in the records of this Company?

A. I should assume the costs of that character, historically, are recorded as part of the operating expenses."

paid." (33)

One element affecting going value, according to the witness, is the relationship of "any given company with its consumers." (34) This, otherwise expressed, is good will and good will, of course, is not going value. (Des Moines Gas Co. v. Des Moines, supra.; Los Angeles Gas & Elect. Corp. v. Railroad Com., supra.)

Whether after eliminating this element of claimed value and the portion of the amount claimed which represents costs borne by the consumers through operating expenses (Dayton P. & L. Co. v. Pub. Util. Com., supra., Columbus Gas & Fuel Co. v. Pub. Util. Com., supra.) there is any residual value left is far from clear. As concerns any such residual increment value above the moneys thus expended, as said in Columbus Gas & Fuel Co. v. Pub. Util. Com., supra., "there was not even approximate precision in measuring its amount."

(33) Thus runs the testimony of the witness:

"Q. The costs incurred by the Company either have been allocated, under the accounting procedure, to operating costs or to capital?

A. Yes, naturally.

Q. So that if the record shows that the Company earned a reasonable return, full compensation for any development costs has been paid them, has it not?

MR. WILLIAMS: Well, that assumes that the record showed it.

MR. READY: Well, he said they had earned a fair return.

MR. WILLIAMS: All right, you can answer the question, assuming the record shows it. A. Yes, from a historical basis I think that -- on the assumption that the Company has, after the payment of its operating expenses, earned a reasonable return, I think that, historically speaking, these elements of development cost have been paid for."

(34) The witness testified thus:

"Q. Very well. One of the large elements affecting going value is the relationship of any given company with its consumers, is it not, or customers? A. Yes."

It is true the witness in attempting to measure going value attached some weight to purchases and sales of utility property between 1915 and 1930. It appeared that a variety of motives entered into these transactions. Fundamentally they occurred during a different era than the present and are of little or no pertinency or weight in measuring as of today the amount of the intangible claimed.

In considering such a claim as is here advanced it must be borne in mind that for over twenty years the State of California has closely regulated public utilities. At the start of this period standard forms of accounting were established and their observance required. Into these accounts flowed and found a resting place every manner of cost or expenditure. There were accounts in which capital expenditures were required to be entered. There were others into which operating costs found their way. One series of accounts thus established was grouped as New Business Expense and was intended to include the various developmental costs of a utility. These were placed in the category of operating expenses. It is true they might with some show of reason have been classified as capital accounts. Practical reasons against their classification thus were serious. Such development costs furnished a doubtful basis for security issues. Questions of depreciation and of depreciation accounting as applied to such costs were almost insoluble. Hence, they were classified as operating expenses and to the extent they were capital in nature the expenditures finding lodgment there were in effect retired year by year. What is said in respect to New Business Expense applies in even more marked degree to the costs of developing the organization and personnel.

The language and holding of the three judge statutory court in Chesapeake & Potomac Tel. Co. v. West, 7 Fed. Supp. 214, decided on May 11, 1934, is apposite:

"And intrinsically considered on the merits it must be realized whatever intangible element of value inheres in the property and business by virtue of its efficient management and integration as a going concern, accumulates not as a separate and independent element of value but gradually from time to time coincident with the growth and management of the business and is in substance an incident to the development of the business contemporaneously paid for in the expense of operation and maintenance taken out of the rates paid by the public.

All relevant facts considered, we are of the opinion that a fair allowance for going value is made when we value the telephone property as a whole and as a going concern at its actual book costs less full depreciation."

Historically, as already pointed out, the Company has incurred in the aggregate new business expense in the amount of \$1,230,188. as of December 31, 1933. Some \$160,000. more will have been incurred by the end of 1934. Thus, without considering other minor costs which may have entered into operating accounts over the years it will be seen that these figures alone equal nearly 5 per cent of the depreciated cost of the property. Obviously, if there is to be added to the property base an amount for going value, it would be logical and necessary, if duplication of charges is to be avoided, to eliminate from current operating expense allowances items for new business expenses and perhaps to represent any continuing cost of developing organization and personnel. New business expense alone, as estimated by all the parties for 1935, amounts to \$162,665. Such an expense allowance is equivalent to a fair return on a substantial going concern value.

It must be concluded that no adequate basis has been established for the inclusion in the rate base of any additive sum to represent the element of going concern value. Not only is this claimed intangible element of value accorded substantial recognition by liberal allowances for operating expense, including those for the development and promotion of the business, but the rate base herein found reasonable represents the value of the property as a going and functioning utility property, including any capital costs which have been incurred to make it a going and operating concern, and including certain units of doubtful operative character and usefulness.

Miscellaneous Additive and Subtractive Items.

The various miscellaneous additive and subtractive items heretofore referred to are as follows:

1. Net additions and betterments for the 18 months ending June 30, 1935 are estimated by the Company at \$437,400., in round figures. The City estimates them at a slightly lesser figure. The Company's estimate is deemed more reasonable and should be accepted.
2. For organization, franchises and patent rights, the utility claims \$42,879. The claim is not seriously disputed.
3. Working capital apparently is computed on the same general basis by both Company and City. They differ in amount because of differing estimates of operating expense. In light of the conclusions reached as to expense, the sum of \$240,000. is deemed reasonable for working cash.

4. For materials and supplies the Company's figure which is slightly in excess of the City's will be used. The amount is \$249,355.

5. Equity in the 7th Street Garage is placed by utility and City at \$1,404.

6. Depreciation on present automobile and heavy tool equipment in the amount of \$230,553. is subtracted by both utility and City. This accords with the treatment herein both of accrued depreciation and depreciation expense.

7. Excess depreciation on automobile equipment in the amount of \$80,392. is likewise deducted by both Company and City. It represents past over-accruals which entered into construction costs and is the item referred to in note (b) of Table V.

8. The Company properly makes a small deduction amounting to \$40,354. for certain property that has admittedly become non-operative.

9. Both utility and City deduct for customers' advances for construction the sum of \$353,659, and for donations in the sum of \$295,516.

These foregoing additions and subtractions, it will be observed, are largely offsetting.

#### Summarization of Property Base.

The following Table VIII summarizes the conclusions reached in this part respecting property base, both undepreciated and depreciated, for the year 1935. The undepreciated bases represent actual costs with appropriate allowances for cash and working capital, but as a matter of convenience of treatment depreciation on automobiles and special tools is deducted. Such bases are not less than

fair value plus accrued depreciation as here found to exist. The depreciated bases stated represent the maximum figures which may reasonably be used for fair value. Allocations as between departments have been made with approximate accuracy and all figures have been rounded out.

TABLE VIII.

PROPERTY BASE FOR YEAR 1935.

	<u>Property Base Undepreciated.</u>	<u>Property Base Depreciated.</u>
Electric .....	\$23,640,000.	\$19,400,000.
Gas .....	12,100,000.	9,150,000.
Steam .....	<u>260,000.</u>	<u>200,000.</u>
Total .....	\$36,000,000.	\$28,750,000.

PART III.

PROBABLE FUTURE REVENUES.

General.

The Commission is here called upon to fix reasonable rates for the future; and in forecasting the earning position of the utility for a future period under existing or proposed rate levels it becomes necessary to have some reasonable standard of property base, revenue and expense to go by. As the hearings in these cases ran their course, both City and Company rather drifted into making a theoretical earning set-up for the calendar year 1935 to be representative of the probable earning position of the Company over a period of years in the future as to which any new rate level would

ordinarily apply. <sup>(35)</sup> Having in mind the purpose of a set-up for the year 1935 and its limitations, <sup>(36)</sup> revenue estimates for that year will now be considered.

The only revenue estimates which need be considered are those of Mr. Holloway, the Vice-President in charge of sales of the San Diego Company, who made estimates for the utility, and Mr. Ready, a consulting engineer of wide experience, who rather late in the hearings presented estimates on behalf of the City. These estimates have been given the most careful consideration, with the conclusion that basically those of Mr. Holloway are accepted as on the whole the more likely to reflect future experience but with certain exceptions which will be specifically discussed. <sup>(37)</sup>

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(35) The City at first attempted to prognosticate property base, revenue and expense year by year to and including the year 1937. It speedily developed that this ambitious set-up was too conjectural in nature and was gradually dropped from serious consideration. The rosate estimates of future revenue there made are no longer seriously urged.

(36) The employment of a 1935 year as representative of an earning position for a period in which new rates ordinarily will prevail is not unfair to the utility. As load and revenue grow the ratio of net earnings to property base tends to increase. Table I indicates the steady growth this utility has long enjoyed. Taking account of rate reductions even the depression does not seem to have turned the process. The Company estimates growth in the future.

(37) The respective estimates in total and for departments are as follows:

	<u>Company</u>	<u>City</u>
Electric .....	\$4,451,774.	\$4,639,344.
Gas .....	2,377,196.	2,540,386.
Steam .....	65,451.	67,277.
Total .....	\$6,894,421.	\$7,248,007.



### Electric Revenue.

The City, by Mr. Ready, estimates domestic and commercial revenue will be \$3,224,585., as contrasted with the Company's forecast of \$3,095,431., an increase of \$129,154. This optimistic forecast is grounded upon an increase in the personnel of the Navy stationed at San Diego and the effect of an exposition to be held at San Diego in 1935.

The exposition, it was recognized, would, during its continuance, have a certain temporary effect on electric sales in these classifications, with some increased expenses consequent upon the greater volume of business. Such a temporary and abnormal condition should be eliminated in seeking a standard of earning for the future for purposes of rate fixation. Rates are not based upon temporary or abnormal conditions. If, however, it may reasonably be anticipated that the exposition will result in a permanent quickening of business with its consequent effect upon electric sales, weight should be accorded the condition so brought about.

It appears that business interests at San Diego have subscribed to a fund of some \$650,000. for the purpose of holding this exposition, it being purposed to utilize buildings and facilities maintained over from the exposition of 1915. The utility was among the underwriters. It does not seem reasonable to assume that an alert and intelligent group of business leaders would attempt so ambitious an undertaking with its substantial financial responsibility merely with the idea and expectation of reaping but a temporary or

passing advantage in the form of an increased number of visitors or tourists drawn to see the exposition. Rather is it reasonable to conclude that there will be some permanent advantage to the business life of the community flowing from the undertaking.

Mr. Holloway in his estimates very properly disregarded the temporary effect of the exposition but he attached no weight to its probable permanent effect on business. Some weight should be given to this. The record does not justify measuring its effect and that of the increase in Navy personnel upon sales and revenue on the optimistic basis urged by the City, but from a consideration of the entire record with all the detailed calculations as to number of domestic and commercial consumers, probable average usage and probable yield per K.W.H. sold, with which the witnesses fortified their respective opinions, it is reasonable to conclude that domestic and commercial revenue should be approximately \$30,000. higher than was estimated by Mr. Holloway.

The Company estimates no revenue for heavy power sales, such as for dredging and the like. Historically, business of this character has almost always developed, the average annual revenue from this source during the period 1927 to 1933 having been \$47,338. The City included \$50,000. for this. Its basis of converting sales to revenue is questioned. \$40,000. in revenue may reasonably be anticipated for such a year as 1935.

#### Gas Revenue.

Sales of gas, particularly for space heating, are directly affected by climatic conditions. A warm winter means a small demand

with consequently diminished revenue. Conversely, a cold winter results in heavy usage with increased revenue. In forecasting the revenue from gas sales to be anticipated in the future regard must be had for probable climatic conditions. (Los Angeles Gas & Elect. Corp. v. Railroad Com., supra.)

All of the participants in making estimates recognized the necessity of this, with the result that the record is replete with basic data bearing upon the temperature standard which should be taken as average or normal as well as the factors and procedure which should be employed in adjusting revenue to a normal climatic condition, the latter being essential to establish a background and a starting point in forecasting revenue for the future.

Both Mr. Holloway and Mr. Ready employed the Degree Day Deficiency basis (sometimes called the D.D.D. basis) as the most reliable and satisfactory one for expressing a year of average or normal temperature and making the essential revenue adjustments. (38) Each, after determining to his own satisfaction the standard degree day deficiency for the territory served by the utility, applied correction factors to adjust the revenue of past years to such standard. Then by the use of trends and various other methods and devices peculiar to estimators they arrived at their conclusions as to probable gas revenue in a 1935 year having their particular

(38) A degree day deficiency is a measure of the extent to which temperature has been deficient or below 65 degrees Fahrenheit for any given period. Thus a mean temperature of 60 degrees existing for one day would be a 5 degree day deficiency. Experience has shown that where temperature is 65 degrees Fahrenheit or above gas usage is not affected.

standard of temperature normality. The two witnesses reached widely varying results.

The witnesses not only differed as to (1) the D.D.D. base or standard which should be deemed normal or average but also as to (2) the correction factor which should be employed and (3) the trend of growth in number of consumers and average usage applicable to the future. Except for the first point of difference Mr. Holloway's methods, bases and procedure are the better supported.

Respecting this first point of difference neither the 1690 degree day deficiency adopted by Mr. Ready nor the extremely low temperature standard of 1450 D.D.D. urged by Mr. Holloway, may reasonably be taken as representative of a future climatic average. (39) It will be observed that the Company adopts a standard conforming to the average experience of the last nine years, a period giving the lowest standard that is obtainable from averaging the experiences of any given number of preceding years. Furthermore, during the whole period for which temperature records are available, namely, from 1871 to date, there appear to have been but two other consecutive nine years which averaged as low or lower than 1450 degree days

(39) The degree day deficiency for 1934 (July 1, 1933 to June 30, 1934) was 1311, the winter of 1933-4 having been one of high temperatures. The average degree day deficiency of 1933 and 1934 was 1652 and of the last three years was 1696, the reason being that the winters of 1932-3 and of 1931-2 were cold winters. The averages reached over varying numbers of preceding years differed according to the occurrence and weightings of winters of high and low temperature and are as follows: 4 years-1521; 5 years-1463; 6 years-1524; 7 years-1495; 8 years-1511; 9 years-1450; 10 years-1485; 11 years-1474; 12 years-1487; 13 years-1646; 14 years-1556; 15 years-1575; 16 years-1581; 17 years-1577; 18 years-1623; 19 years-1631 and 20 years-1625. Averages for periods of years greater than this all run over 1600 and tend to go substantially above this figure.

deficiency. These were the 9 year periods ending in 1931 and 1932. The Company sought to fortify the use of a standard which thus seemed rather extreme by urging the existence of long trend climatic conditions marked by shorter cycles. That there has been a long cycle of higher temperatures cannot be gainsaid. However, if a trend of temperature be developed by using a moving 9 year average over the entire period for which records are available, which is what the Company did, the trend line shows periodic inclines and declines, the angle of incline usually corresponding with the angle of decline. The present decline as indicated by such trend seems to have already reached its low point and to have started ascending.

A careful study of the voluminous data in the record and the interesting theories expounded by the witnesses, leads to the conclusion that a standard higher than that of the Company, though not so high as Mr. Ready's, is the most likely to represent average or normal temperatures of the future. 1600 degree days deficiency seems to be the most reasonable standard to use.

The use of this standard of temperature means an increase in 1935 revenue as prognosticated by Mr. Holloway. How much, is again a matter of dispute. Mr. Holloway early in 1934 estimated gas revenue for 1934 and 1935. At the close of the hearings he expressed his adherence to his 1935 forecast. It appears that after making adjustments for temperature to bring the 1934 calendar year, so far as data is available, to normal conditions his estimated trend for the year was exceeded by performance. Applying the trend of his estimated sales increase for the two year period on a normalized basis to a starting point developed by trending actual sales normalized to a 1600 D.D.D. basis from the inception of natural gas through 1934,

leads to a conclusion that revenue for 1935 will be approximately \$2,470,000. (40)

Steam Revenue.

Steam sales also are affected by temperature and the estimate for steam revenues calls for adjustment to harmonize with the conclusions reached respecting revenue of the gas department. This adjustment is expressed in the following summarization of anticipated revenue.

Summarization of Revenue for a 1935 Year.

The revenue reasonably to be anticipated for a 1935 year is as follows, the figures being rounded out:

Electric .....	\$4,520,000.
Gas .....	2,470,000.
Steam .....	66,000.
Total .....	<u>\$7,056,000.</u>

PART IV.

OPERATING EXPENSES.

General.

Conclusions respecting operating expenses for the year 1935 follow closely the estimates of the Company except for certain items calling for special consideration. Appropriate adjustments are made to conform to the increased revenue. The Byllesby management fee has already been considered and the conclusions respecting

(40) Escondido is served by manufactured gas. Estimated gas revenue there has been corrected in harmony with the methods used as to the natural gas service.

it reached in Part I will be reflected in the operating expenses deemed reasonable.

Gas Cut-over Expense.

When the utility moved over to natural gas in the fall of 1932, it adjusted consumers' appliances to the use of the new fuel. It did an unusually efficient job. Its cost was \$421,000., which has been paid, but the Company has since been reimbursing itself by including in operating expenses \$10,000. a month. As of the end of the present year there will remain unreimbursed approximately \$150,000. The Company urges an allowance of \$120,000. in its 1935 gas department expense for further reimbursement. The City contests such an allowance, insisting the claim is without justification or equity.

Past operating expenses should, of course, be used as a guide in estimating reasonable expenses for the future. It is clear, however, that in the absence of special equitable considerations such an item of expense incurred and paid in the past, just like excessive earnings in the past, may not be equalized over future years. The existence of such an equity here is not apparent.

With the approval of the Commission, the utility in 1932 elected to move over to natural gas. It was permitted a choice between a rate schedule effective April 1st of that year should manufactured gas service be continued, or another rate schedule effective October 1st should natural gas service be substituted. In electing to pursue the latter course the Company's revenue position for the interim months was advantaged by approximately \$250,000. Nor was the incurrence in 1932 of the costs incident to the change over to natural gas an excessive burden upon the revenue for that year.

Table I indicates that upon the basis of the Company's own reports it received approximately \$150,000. in excess of a 7 per cent return, and if such operations are translated to the conclusions herein reached its excess income over a 7 per cent return reached at least \$400,000. Had a reasonable application of 1932 earnings been made against the cost of cut-over incurred in that same year it would be unnecessary to seek now to burden the future with this item. Enough has been said to show the absence of equity in the Company's claim. (41)

The conclusions here reached are consonant with those recently expressed by the Commission in Re San Joaquin Light & Power Corp., 38 C.R.C. 822, and Re Pac. Gas & Elect. Co., 39 C.R.C. 53.

#### Rate Case Expense.

In the Company's final exhibits containing operating expense estimates for a 1933 year there is included the sum of \$24,322. for rate case expense. The total of such expense as estimated at the time the exhibits were prepared was \$102,442. It was urged that this should be amortized over a period of five years with 6 per cent. interest. (42) On this basis the amount chargeable in

(41) Another countervailing equity is that the utility, as pointed out in note 31, has carried a special automobile and tool reserve. Admittedly this has been over-accrued. Part of this over-accrual has reflected itself in fixed capital. For this a deduction has been made. Part, however, has reflected itself in an over-statement of operating costs over the years. The amount of this is, in round figures, \$100,000. There is no reason why this latter amount should not be transferred to surplus. Equitably this past gain may well be considered as offsetting in part the past cut-over expense.

(42) An allowance of interest on the cost incurred and paid works out curiously, as appears from the following testimony of Mr. Klauber:

"Q. \*\* You have got a gilt-edged 6 per cent investment in your valuation expense, haven't you, on this basis of treating it?

A. Yes, it is a 6 per cent investment; I don't know whether it is gilt-edged, that remains to be seen.

Q. Well, in any event, the more money you spend on valuation the more profit you make on this investment?

A. That is true if you could not get 6 per cent. on the rest of your investment, yes.

Q. Well, you can't get 6 per cent. on your cash, anyway, now, can you? A. That is correct."



1935 was calculated at the figure included in the exhibits. Actually the expenses have been found to be higher and in its final brief the utility claims an annual amount for this of \$29,500., which includes the interest item.

Upon none of the grounds upon which such expenses are customarily recognized is it possible to justify an allowance of more than \$20,000. for the year 1935.

#### Donations and Dues.

Because of the abuses almost inevitable in allowing in expense the amount of all dues and donations made by utilities, this Commission in recent years has been disposed to restrict substantially claims respecting these. (Re San Joaquin Light & Power Corp., 37 C.R.C. 530; See Carey v. Corp. Com. (Okla.) 33 Pac.(2) 788.) While the amount included for this in the expense estimates of the utility is relatively unimportant, some deduction is appropriate and will be made.

#### Depreciation Expense.

Upon this issue there was adduced a mass of testimony supporting the varying theories and sharply conflicting estimates advanced. At the start of its consideration it is appropriate to dispose of one fallacious claim rather hesitantly advanced by the utility, namely, that under the fair value theory of testing earning position the use of the straight line method of computing depreciation expense is

essential. It is not. <sup>(43)</sup> (Los Angeles Gas & Electric Corp. v. Railroad Com., supra; Clark's Ferry Bridge Co. v. Pub. Serv. Com., 290 U.S. 632.)

In view of the long practice of this utility, as well as the long prevailing practice in this State, respecting depreciation expense and having in mind reality rather than a theory leading to extreme and unreasonable results, the expense of depreciation will be estimated and allowed for on the basis of a sinking fund annuity.

The amount of the annuity estimated to be appropriate and adequate for the year 1935 varies from the Company's \$801,844. to the City's claim of \$611,660. The difference is not so great as appears, because the respective estimates are calculated upon different depreciable property bases. To visualize the differences and to make these and other estimates fairly comparable they must be translated to the property base here adopted with overheads spread on a more representative basis than at present. <sup>(44)</sup>

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(43) To avoid grave inconsistencies and injustice in a use of straight line depreciation expense which assumes consumption of property in service at a uniform rate, it is essential to give weight to this same assumption in estimating accrued depreciation or else the utility will be allowed to earn on property which the consumers have already paid for as consumed in service. The straight line accrued depreciation comparable to the Company's estimate for 1933 of \$7,294,126. would be in the neighborhood of \$14,000,000. For this Commission now to move over to the straight line basis of estimating both the amount and the expense of depreciation, would, in view of the method of treatment of both long followed and practiced in California, work many untoward and unreasonable results.

(44) Certain overheads are spread uniformly where admittedly they do not thus occur. The effect of this has been in general to increase the apparent value of short lived property and decrease that of long lived structures and to produce a distorted result in the aggregate of the annuities.

Thus translated the respective annuities advanced by the witnesses may be stated, in round figures, as follows:

Sherwin, for the Company .....	\$770,000.
Ready, for the City .....	650,000.
Wehe, of the Commission's staff .....	710,000.

Each of these witnesses is experienced and qualified and each went into great detail in support of his final conclusion. Each attached considerable but varying weight to the retirement experience of the Company. One of the chief sources of difference was as to the weight proper to be given to the lessening of the retirement rate which it was admitted would occur with the slowing down of the rate of growth of the Company's property.

All recognized the present reserve built up over the years to be adequate. Some thought it to be excessive. All recognized the present rate of accrual to be excessive. Taking the over-all property, the effect of Mr. Sherwin's estimate was a reduction of the annuity resulting from the property lives now employed of approximately 5 per cent, of Mr. Ready's of approximately 20 per cent, and of Mr. Wehe's of approximately 12 per cent.

To treat in detail the respective contentions of these very earnest witnesses as to the lives proper to be assumed for the numerous classifications of property would unduly prolong this opinion. It is enough to say that after careful consideration the conclusion is reached that an allowance for a 1935 year of \$710,000. for the system will, with interest accounting on the reserve as now practiced, adequately cover this item of expense and fully protect the utility against the consumption of property in service.

### Taxes.

The Company estimates taxes to be included in operating expense at \$894,068; the City at \$887,088. These are not entirely comparable since they are based upon different estimates of revenue and expense, and these, of course, affect the amount of Federal income tax. There are certain items entering into the matter of taxes which are difficult to forecast with exactitude. However, having due regard to strong probabilities and the likelihood of errors, if any, in estimating these being compensating, it is believed that an amount for taxes slightly in excess of the Company's estimate (this to provide for increased Federal income tax with increased revenue) will very closely approximate what the utility would actually experience under present rates.

### Summarization of Probable 1935 Year Earning Position.

The conclusions reached respecting property base, revenue and expense for a 1935 year may now be summarized and expressed in tabular form both for the over-all Company operations and for operations by departments. In stating the departmental results allocations of property base and expense have been made as accurately as possible, although refinements in the making of such allocations are relatively unimportant in view of the weight here given to the over-all earning position of the utility. Figures are rounded out, it being obviously impossible to attain the exactitude implied in using odd numbers.

In calculating the return which should be realized by the utility over-all and in its several departments under present rates, as well as such return under the rates established as proper, the controlling measure or yard stick employed is the traditional set-up long used by this Commission, consisting of a rate or property base without deduction for accrued depreciation, with depreciation expense consisting of a reasonable sinking fund annuity, and the net being the amount available for interest on an adequate depreciation reserve and return on the property base.

The following Table IX depicts the earning position of the utility under present rates on this basis:

TABLE IX.

PROBABLE OPERATING RESULTS FOR A NORMAL YEAR  
1935 UNDER PRESENT RATES, WITH AN UNDEPRECIATED  
RATE BASE AND AN ANNUAL DEPRECIATION EXPENSE ON  
THE SINKING FUND BASIS.

Item	Department			
	Electric	Gas	Steam	Combined
Rate Base (Undepreciated).....	\$23,640,000.	\$12,100,000.	\$260,000.	\$36,000,000.
Revenue .....	4,520,000.	2,470,000.	66,000.	7,056,000.
Expense before De- preciation .....	2,140,000.	1,547,000.	38,000.	3,725,000.
Depreciation Expense	467,000.	233,000.	5,000.	710,000.
Total Expense .....	2,607,000.	1,785,000.	43,000.	4,435,000.
Available for Return	1,913,000.	685,000.	23,000.	2,621,000.
Percent Return	8.1%	5.7%	8.8%	7.3%

Under the facts here present and found, such earning position may be expressed on the basis of a depreciated rate base and sinking fund depreciation expense. This is done in Table X. Reasonable provision is here made for the consumption in service of the property, the life and value of which has been lessened by age and use, by supplementing the sinking fund annuity appropriate for total life by interest upon the amount taken to represent accrued depreciation.

TABLE X.

PROBABLE OPERATING RESULTS FOR A NORMAL YEAR  
1965 UNDER PRESENT RATES, WITH A DEPRECIATED  
RATE BASE AND WITH AN ANNUAL DEPRECIATION EX-  
PENSE ALLOWANCE APPLICABLE TO SUCH A PROPERTY  
BASE.

Item	Department			
	Electric	Gas	Steam	Combined
Rate Base (depreciated)	\$19,400,000.	\$9,150,000.	\$200,000.	\$28,750,000.
Revenue .....	4,520,000.	2,470,000.	66,000.	7,056,000.
Expense before Depreciation .....	2,140,000.	1,547,000.	38,000.	3,725,000.
Depreciation Expense .	721,000.	415,000.	9,000.	1,145,000.
Total Expense .....	2,861,000.	1,962,000.	47,000.	4,870,000.
Available for Return .	1,659,000.	508,000.	19,000.	2,186,000.
Per Cent Return .....	8.5%	5.6%	9.5%	7.6%

PART V.  
FAIR RETURN

"The profound changes in \* \* \* reasonable return on invested capital" occurring in recent years and of which judicial notice may be taken, mentioned by Mr. Justice Stone in Central Kentucky Natural Gas Co. v. Railroad Com., *supra*, are illustrated by the action of this and other regulatory bodies respecting return on utility property and the expressions of the courts in reviewing action so taken. Seven or eight years ago a rate of return approximating 8 per cent was common and met with rather general acceptance. Gradually a lower figure developed. When in December, 1928, this Commission in Ventura v. Southern Counties Gas Co., 32 C.R.C. 477, concluded that for a gas distributing system "a return of 7 per cent upon the capital invested" was adequate, doubt was expressed as to the sound judgment of this body. As late as 1930 a return of 7 per cent was seriously urged as unreasonable and, indeed, confiscatory (Los Angeles Gas & Elect. Co. v. Railroad Com., *supra*). In November, 1933, this Commission in Re Pac. Gas & Elect. Co., 39 C.R.C. 53, fixed rates for natural gas calculated to yield approximately 6-2/3 per cent. return on rate base. The order was attacked by the utility in the Federal Court, one ground of assault being the rate of return allowed. In Pac. Gas & Elect. Co. v. Railroad Com., 5 Fed. Supp. 378, a United States district court directed the issue of an interlocutory injunction against the enforcement of the order, saying, among other things, "it is clearly doubtful whether or not the rate of 6-2/3 per cent is sufficient to produce a fair return on the fair value of plaintiff's property." Three weeks later the

Supreme Court in Dayton P. & L. Co. v. Pub. Util. Com., *supra*, held a return of  $6\frac{1}{2}$  per cent to be adequate for a natural gas distributing company and significantly added the comment - "Whether a lower rate could be upheld is a question not before us." Adequacy of a  $6\frac{1}{2}$  per cent return upon a natural gas collecting and transmission company was not questioned in Columbus Gas & Fuel Co. v. Pub. Util. Com., *supra*, decided on May 21st. Prior to this a district court in Ill. Bell Tel. Co. v. Gilbert, 3 Fed. Supp. 595, had held a rate of return of  $5\frac{1}{2}$  per cent reasonable for the year 1932. On May 11, 1934 in a carefully considered opinion another district court in Chesapeake & Potomac Tel. Co. v. West, *supra*, held 6 per cent on the cost of a telephone property less its depreciation reserve not to be confiscatory.

Enough has been said to indicate the gradual and progressive change of commission and court in the estimation of a rate of return proper to be accorded in view of the changes in the economic structure referred to by Mr. Justice Stone. There has been a general lowering in the for hire value of money. (45) No longer does capital command and enjoy the return it did ten or fifteen years ago.

(45) See rates charged customers by banks in principal cities. Federal Reserve Bulletin of December, 1934, page 795.

Order of Federal Reserve Board reducing bank interest. Federal Reserve Bulletin of December, 1934, pages 771-772 and 815-819.

Moody's bond yield averages. Commercial and Financial Chronicle of December 8, 1934, page 3539.

Banking (formerly Journal of American Bankers Association) of October, 1934, page 28, also November, 1934, page 25.

Orders of Reconstruction Finance Corporation reducing interest rates. Commercial and Financial Chronicle of December 31, 1932, page 4482, and of June 17, 1933, page 4202, and of March 31, 1934, page 2172.



The Commission is not unmindful of the distinction between a rate of return which is reasonable and one which is not strictly confiscatory (Banton v. Belt Line R. Co., 268 U.S. 413; Columbus Gas Fuel Co. v. Pub. Util. Com., supra). In view of recent decisions and of business conditions which may be noticed (Dayton P. L. & P. Co. v. Pub. Util. Com., supra) it may hardly be urged that a rate of return such as was recently allowed in Re Pac. Gas & Elect. Co., supra, hugs too closely the line of confiscation. A return of 6-2/3 per cent under the traditional set-up referred to in Table IX may not under the circumstances here present be deemed unreasonable.

Tested against the financial requirements of the Company, such a return will provide for bond interest and all other fixed charges and preferred stock dividends and will leave a balance for earnings on the common stock equity reasonable under present conditions and the facts here developed. While a return is allowed on the un-depreciated rate base upon the assumption that all of the depreciation reserve is invested in the property, such an assumption is not wholly justified here. The evidence indicates that only about \$6,000,000. of the reserve is so invested, the balance being in the form of cash. Whether the earning on this cash be assignable to reduce the amount of interest on the reserve to be accounted for, or be used to augment the balance available for common stock dividends, the result to the holders of the common stock is the same. Should the management of the Company in its discretion see fit to apply this cash to the retirement of outstanding 6 per cent bonds, the assumption that the reserve is invested in property would not only acquire a reality it does not now possess, but the income available for the common stock would be appreciably augmented.

What is here said is said without giving weight to the claim of the Byllesby organization that its services have been valuable and could not have been obtained elsewhere at a cost less than the amount collected from the local company and that the Commission should recognize a right to a profit on such services over and above the actual cost of their rendition. Such a profit, if any should be allowed, may most appropriately be reflected in the rate of return, for thus it would be done openly rather than being concealed in capital or operating accounts.

The management company itself is not in reality concerned with the matter of profit. It is in essence a group of highly trained professional and business men rendering service to the Standard group of operating companies. The individuals are paid liberal compensation for their services. They receive no profits. The profits are all passed to the Standard Gas and Electric Company when and as realized. This Company is in substance the sole common stockholder of the San Diego Company and as such the beneficiary of any amount allowed for return in excess of that necessary to meet fixed charges and preferred stock dividends.

Conceding that the services rendered have been desirable, especially in the purchasing savings realized through combining the purchasing power of the various operating companies, it must be borne in mind that the Standard Gas & Electric Company has enjoyed for many years earnings and emoluments of the most liberal nature from the San Diego property. To allow the continuance of these in the form of a surcharged rate of return may not be deemed to represent a reasonable exercise of that sound and equitable judgment the Constitution and the Public Utilities Act

presume the Commission will exhibit.

Nor may it fairly be concluded that the balance sheet of the services in question predominates on the asset side to the extent indicated by the enthusiastic representation of savings made and efficiencies effected. On the liability side appears the fact that notwithstanding the supervision and direction of the Byllesby organization the carrying cost of bond, preferred stock and reserve money in the San Diego property is higher than that of other major gas and electric companies in California<sup>(46)</sup> and the further fact that the rate levels of the San Diego Company are likewise higher than those of other utilities serving comparable sections. Various explanations for these facts are earnestly advanced. They have some merit but do not bring that sense of conviction necessary to accept the balance sheet without some offsetting liability in this regard. It is by no means clear that the plan of central control as here exemplified has fully met the pragmatic test of results accomplished.

In being led irresistably to the conclusions here expressed, the Commission is not unmindful of the enthusiastic and able personnel of the management company. Such conclusions need mean no interference with the personnel of the management organization.<sup>(47)</sup> Payment for all costs of every character of carrying on

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(46) See Cal. Senate Journal - 1936 Session, page 57.

(47) Thus, Mr. Hagenah testified that if service was furnished at cost on a clearing account basis "every official and employe in our organization would work with undiminished enthusiasm, if nothing more, out of a sense of loyalty to this group of companies with which we have been so long identified" but the facilities of the Standard Company to furnish financial assistance to the operating companies would, he thought, be impaired under such an arrangement.

the service, including liberal salaries, is contemplated. The one and only change in the present plan consequent upon this decision is the elimination of the element of profit on the top of the cost of the services - a feature of the system which unless remedied is likely to break down the very system itself.

Consequent Deduction in Net and Gross Revenue.

The conclusions reached indicate a reduction in rates which will effect a reduction in net revenue of the utility of approximately \$220,000. Two factors effect the translation of this into the amount of reduction in gross revenue which will bring about such lessening of net. One of these is the incidence of taxes. This may be calculated with a high degree of accuracy. The other factor, namely, the admitted tendency to recover revenue under lower rates, calls for a nice exercise of judgment to determine its weight and application. (48) Having in mind the nature of the reductions here ordered, it is concluded that rates which will reduce the anticipated gross for a 1935 year, as expressed in Table IX, by approximately \$285,000. will not reduce the net for such a year by more than the amount here found to be reasonable.

(48) Mr. Ready, whose wide experience entitles his opinion to serious consideration, thinks in the first year there should be a recovery on the apparent reduction of from 15 to 30 per cent on the domestic and commercial schedules; and he concludes that taking into account both factors mentioned above "the gross revenue should be estimated to be reduced by between 125 and 130 per cent of the estimated reduction in net for domestic and commercial lighting; it should be 117 per cent for power, and for gas operations 120 to 125 per cent." Mr. Egenah, who was familiar with studies made by the management company on recovery and with a special report on that subject it has recently made to the Federal Power Commission, agreed with Mr. Ready as to the fact of recovery but was of the opinion that the rate of recovery is not as rapid as indicated.

PART VI.

SPREAD OF RATES.

General.

One of the most delicate and difficult functions of the Commission lies in the determination of how the reduction in rates found justifiable is to be spread amongst the various consumers and classes of consumers.

Here the City expressed its views as to the territory and schedules in which reductions should fall, as well as to certain conditions in the forms of schedules which have proved vexatious and burdensome. (49) The Company had an opportunity to make like suggestions on the assumption a reduction in rates should be directed. The Commission has given the most careful consideration to this highly important feature of the cases and has sought to accomplish a just and reasonable spread of the reductions ordered.

Gas Rates.

Generally a reduction in gas rates because of the low earning of that department is not justified. However, two changes in gas schedules are appropriate. The form of schedule as applied to apartment houses should be modified. Escondido is still on manufactured gas. It received none of the benefits of the change over to natural gas. Furthermore, the manufactured gas rates in Escondido are still (and will continue to be) governed by Re S.D.C.G. & E. Co., 20 C.R.C. 425, under which the rates go up or

(49) Because of the occurrence of vacancies in apartment houses, the present form of rate, both electric and gas, has under actual conditions caused some hardship. Changes in the form of the schedules giving apartment houses certain options should soften the asperities in the application of the rates.

down according to published fuel oil prices. Under that order, because of a recent increase in such prices, the Escondido rates are due for an automatic increase as of March 1st. Because of these considerations new manufactured gas schedules for Escondido will be directed which will effect a small reduction there in addition to absorbing the automatic fuel oil increase to which reference has been made.

#### Electric Rates.

It is obvious that the main reductions should fall in the electric rates. The City urges that the reduction should be confined to San Diego city limits. The record affords justification for confining it largely to incorporated territory. While generally the utility's electric rates in unincorporated territory compare favorably with similar rates of other major electric utilities, in some blockings they seem to be out of line. This should be corrected, which will throw some reductions to the outside territory. Furthermore, it is advisable that there be at least one promotional domestic rate. Schedule C-1 seems to be the best vehicle for this and this schedule is made system-wide in its operation. Certain street lighting schedules are out of line and will be changed. So far as the general domestic lighting schedules are concerned the reduction is made in the first block after the minimum. This will spread the reduction amongst more average sized consumers than in the case of most rate reductions ordered by the Commission. (50)

The reductions as estimated, directed by the technical order following this opinion, may be summarized as follows:

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(50) For instance, the present average monthly consumption in San Diego under Schedule D-1 is 46 K.W.H., for which the charge under present rates is \$2.86. Under the rates directed it will be \$2.57.

TABLE XI.

SUMMARY OF REDUCTIONS BY CLASSES OF SERVICE.

<u>Class of Service</u>	<u>Amount of Estimated Reduction.</u>
Domestic Service (Electric) .....	\$136,000.
Commercial Service (Electric) .....	132,000.
Street Lighting (Electric) .....	10,000.
Escondido (Manufactured Gas).....	5,000.
Miscellaneous .....	2,000.

Of the foregoing reductions approximately 90 per cent, or \$257,000., will fall within the limits of incorporated cities. (51)

Under the rates prescribed the electric rates of the utility will compare favorably and closely, both as to volume and spread, with similar rates in effect upon the systems of the major electric utilities in California.

I recommend the following form of findings and order:

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(51) About 87 per cent of the revenue under existing schedules in which reductions are made occurs in urban territory.

FINDINGS AND ORDER

Public hearings having been had in the above entitled cases and the cases having been submitted for decision, the Railroad Commission of the State of California, after giving full and careful consideration to the record before it and the arguments of the parties, concludes and finds as follows:

1. A reasonable property or rate base of San Diego Consolidated Gas and Electric Company as a fully going and functioning utility, for the year 1935, including therein all elements of cost (after the elimination of inter-affiliated company profits) for both tangible and intangible property not charged to operating expense or otherwise contributed by consumers through consumers' advances and donations and the like, an allowance for materials and supplies and working cash capital and the estimated average net additions and betterments for the year, but with no deduction for accrued depreciation (except for automobiles and special tools) is:

For the electric department property ....	\$23,640,000.
For the gas department property .....	12,100,000.
For the steam department property .....	<u>260,000.</u>
For the combined property .....	\$36,000,000.

And, considering the history of the company and the periods when its property was installed, together with past, present and probable future price levels, and the accounting practice, procedure and history of the utility respecting costs tending to create going value, the fair value of the property as a fully going and functioning



utility, after giving effect to accrued depreciation, both over-all and by departments, does not exceed:

For the electric department .....	\$19,400,000.
For the gas department .....	9,150,000.
For the steam department .....	<u>200,000.</u>
For the combined property .....	\$28,750,000.

2. Because of the history and practice of the company in respect to the handling and treatment of the amount and expense of depreciation, as well as the occurrence of depreciation, it is reasonable to measure its probable future earning position under both present rates and rates herein fixed without deduction of accrued depreciation from the rate or property base, and with depreciation expense measured by the amount of an appropriate sinking fund annuity; and the succeeding finding No. 3 includes depreciation expense on such basis.

3. Under rates now in effect, the reasonably to be anticipated net revenue available for the 1935 year for return and interest on a reasonable depreciation reserve to be accounted for, for the several departments and over-all, is not less than:

Electric .....	\$1,913,000.
Gas .....	685,000.
Steam .....	<u>23,000.</u>
Total Over-all .....	\$2,621,000.

And under rates here fixed and prescribed as reasonable, for the several departments and over-all, is not less than:

Electric .....	\$1,696,200.
Gas .....	680,800.
Steam .....	<u>23,000.</u>
Total Over-all .....	\$2,400,000.

4. With a return allowed upon a property base decreased by accrued depreciation and with a reasonable and adequate allowance for depreciation expense appropriate to a depreciated property base, the reasonably to be anticipated net revenue available for return for a 1955 year, under present rates, for the several departments and over-all is not less than:

Electric .....	\$1,659,000.
Gas .....	508,000.
Steam .....	<u>19,000.</u>
Total Over-all .....	\$2,186,000.

And under the rates here prescribed, for the several departments and over-all is not less than:

Electric .....	\$1,442,200.
Gas .....	503,800.
Steam .....	<u>19,000.</u>
Total Over-all .....	\$1,965,000.

5. Under the rates herein prescribed and fixed the utility should in the future earn a fair and reasonable return on the rate or property base herein found reasonable, on its actual investment after elimination of inter-company profits, and on the fair value of its property and a return as high as capital in the vicinity can obtain in other investments comparable as to security and risk, and will be

able to pay its fixed charges, preferred stock dividends and reasonable dividends on the equity in the property represented by common stock and attract such, if any, new capital as may be needed for the improvement and extension of the system.

6. The present rates of the utility are unreasonable to the extent they differ from the rates herein prescribed, which are hereby found to be just and reasonable rates for the future.

Based upon the findings contained herein and in the opinion preceding,

IT IS HEREBY ORDERED that effective on all meter readings taken on and after March 1, 1935, San Diego Consolidated Gas and Electric Company charge and collect the rates specified in Exhibit "A" hereto attached except to the extent the schedules therein set out do not modify or affect schedules now in effect.

The effective date of this order, except as otherwise provided herein, is twenty (20) days from the date hereof.

The foregoing opinion, findings and order are hereby approved and ordered filed as the opinion, findings and order of the Railroad Commission of the State of California.

Dated at San Francisco, California, this 4<sup>th</sup> day of February, 1935.

Leon Whiskey  
W. J. Cur  
M. B. Harris  
Ed. J. [unclear]  
Gold [unclear]  
Commissioners.

EXHIBIT "A"

SCHEDULE D-1

(Canceling Schedule D-1, C.R.C., Sheets Nos. 436-E and 422-E)

GENERAL RESIDENCE SERVICE:

Applicable to residential lighting service with which domestic heating, cooking and power service, including lamp socket devices, may be combined.

TERRITORY:

Applicable to service within all incorporated limits served by the company.

RATE:

	<u>Gross</u>	<u>Net</u>
First 12 Kw-hr. or less per meter per month....	\$1.00	\$0.90
Next 38 Kw-hr. per meter per month.....	5.9¢	4.9¢ per Kw-hr.
Next 150 Kw-hr. per meter per month.....		3.0¢ per Kw-hr.
Excess Kw-hr. per meter per month.....		2.0¢ per Kw-hr.

For residences individual flats or individual apartments of more than 11 rooms the second block of 5.9¢ gross or 4.9¢ net shall be increased 4 Kw-hr. for each additional room.

MINIMUM CHARGE:

Where no major equipment is installed, the minimum charge shall be \$1.00 gross or 90¢ net per meter per month. The following additional charges will be added to the minimum charge where major appliances are installed.

- (a) For cooking or water heating equipment (excluding instantaneous water heaters) 50¢ per month per kilowatt of installed capacity in excess of 10 kilowatts. In case an extension of facilities is required, a charge of not less than 50¢ per month per kilowatt of installed capacity will be made for a period of 3 years from date service is first rendered.
- (b) For instantaneous water heating equipment \$1.00 per month per kilowatt of installed capacity.
- (c) For air heating equipment 50¢ per month per kilowatt of installed capacity for 5 months each year, payable in the months of November, December, January, February and March each year. Where the aggregate capacity of minor air heating appliances of 1 kilowatt or less exceeds 3 kilowatts, such excess shall be included as major equipment.
- (d) For all other large equipment not listed above, 50¢ per month per kilowatt of installed capacity.
- (e) In the case of service to summer cabins or week-end cottages the minimum charge for lighting and small appliances will be \$15.00 per meter per season, payable in advance at the beginning of the summer season, which

SCHEDULE D-1 (Cont'd.)

MINIMUM CHARGE: (Cont'd.)

(e) (Cont'd.)

will normally commence with the regular meter reading date for May of each year. The rate will be as set forth above except that for consumptions of less than 12 Kw-hrs. per month the first block will be prorated at the rate of 7.5¢ per kilowatt hour. The minimum charge for major equipment will be as set forth above under (a), (b), (c) and (d), provided that where special transformer capacity is required to serve such load, an annual minimum of \$6.00 per Kw. of major appliance load will be required for a three-year period.

Note: Only major equipment will be counted in determining the connected load. Major equipment includes any device having capacity in excess of 1 kilowatt.

PROMPT PAYMENT DISCOUNT:

All bills are rendered at the gross rate shown above. A discount reducing the bill to the net rate is made for prompt payment in case bills are paid on or before the date due as shown on the bill rendered.

SPECIAL CONDITIONS:

- I. This schedule applies only to single family dwellings and to separately metered flats, apartments and bungalow courts where such flat, apartment or bungalow court has separate meter for each family residing therein.
- II. Any apartment house or group of apartments may receive service under this schedule through one meter provided that each individual apartment included uses heating or cooking equipment of at least 4 Kw. capacity. For this purpose the energy blocks will be increased by applying a multiplier thereto equivalent to the number of apartments.
- III. Capacity of all equipment will be based on name plate rating taken to the nearest 1/10 Kw. with the exception of instantaneous water heating, X-ray and special apparatus, in which case the company reserves the right to make tests for maximum load.
- IV. Single phase domestic motors aggregating not over 3 horsepower will be permitted under this schedule. There will be no increase in minimum charge for such service.
- V. All rooms are counted active except alcoves, unfurnished attic and basement rooms, bath rooms, breakfast nooks (less than 60 square feet), pantries, cellars, storage rooms, closets, entries, furnace rooms, hallways (less than 120 square feet), laundries, lavatories, plant conservatories, porches not permanently enclosed and enclosed porches of less than 120 square feet, garages without living quarters. Barns will be counted as one active room for every four lighting outlets.

SCHEDULE D-1 (Cont'd)

VI. The owner or operator of an apartment house of four or more separately metered apartments (where no major equipment is installed) may elect, upon assuming responsibility for payment of all electric bills, to have all the meters billed under this schedule on a monthly service charge basis in lieu of the regular monthly minimum charge basis; but in no case shall this provision apply when less than 50 per cent of the total number of such meters are turned on.

The rate applicable to the service charge basis will be as follows:

Service Charge not to be prorated for Part Month Service.

	<u>Gross</u>	<u>Net</u>
Service Charge, including first 4 Kw-hrs or less per meter per month.....	\$.60	\$.50
Next 46 Kw-hrs per meter per month.....	5.9¢	4.9¢ per Kw-hr
Over 50 Kw-hrs - The corresponding rates in regular schedule will apply.		

SCHEDULE D-2

(Cancelling Schedule D-1, Sheet Nos. 436-E and 422-E)

GENERAL RESIDENCE SERVICE:

Applicable to residential lighting service with which domestic heating, cooking and power service, including lamp socket devices, may be combined.

TERRITORY:

Applicable to service in entire territory served by the company outside of incorporate limits.

RATE:

	<u>Gross</u>	<u>Net</u>
First 12 Kw-hr or less per meter per month..	\$1.00	\$.90
Next 38 Kw-hr per meter per month.....	6.3¢	5.3¢ per Kw-hr
Next 150 Kw-hr per meter per month.....		3.0¢ per Kw-hr
Excess Kw-hr per meter per month.....		2.0¢ per Kw-hr

For residences, individual flats or individual apartments of more than 11 rooms, the second block of 6.3¢ gross, or 5.3¢ net, shall be increased 4 Kw-hr for each additional room.

MINIMUM CHARGE:

Where no major equipment is installed, the minimum charge shall be \$1.00 gross, or 90¢ net, per meter per month. The following additional charges will be added to the minimum charge where major appliances are installed:

- (a) For cooking or water heating equipment (excluding instantaneous water heaters)-- 50¢ per month per kilowatt of installed capacity in excess of 10 kilowatts. In case an extension of facilities is required, a charge of not less than 50¢ per month per kilowatt of installed capacity will be made for a period of three years from date service is first rendered.
- (b) For instantaneous water heating equipment \$1.00 per month per kilowatt of installed capacity.
- (c) For air heating equipment 50¢ per month per kilowatt of installed capacity for 5 months each year, payable in the months of November, December, January, February and March each year. Where the aggregate capacity of minor air heating appliances of 1 kilowatt or less exceeds 3 kilowatts, such excess shall be included as major equipment.
- (d) For all other large equipment not listed above, 50¢ per month per kilowatt of installed capacity.
- (e) In the case of service to summer cabins or weekend cottages, the minimum charge for lighting and small appliances will be \$15.00 per meter per season, payable in advance at the beginning of the summer season, which will normally commence with the regular



SCHEDULE D-2 (Cont'd)

MINIMUM CHARGE (Cont'd)

(e) Continued.

meter reading date for May of each year. The rate will be as set forth above except that for consumptions of less than 12 Kw-hr per month, the first block will be prorated at the rate of 7.5¢ per kilowatt-hour. The minimum charge for major equipment will be as set forth above under (a), (b), (c) and (d), provided that where special transformer capacity is required to serve such load, an annual minimum of \$6.00 per kw of major appliance load will be required for a three year period.

Note: Only major equipment will be counted in determining the connected load. Major equipment includes any device having capacity in excess of 1 kilowatt.

PROMPT PAYMENT DISCOUNT:

All bills are rendered at the gross rate shown above. A discount reducing the bill to the net rate is made for prompt payment in case bills are paid on or before the date due as shown on the bill rendered.

SPECIAL CONDITIONS:

(1) This schedule applies only to single family dwellings and to separately metered flats, apartment and bungalow courts where such flat, apartment or bungalow court has separate meter for each family residing therein.

(2) Any apartment house, or group of apartments, may receive service under this schedule through one meter provided that each individual apartment included uses heating or cooking equipment of at least 4 K.W. capacity. For this purpose the energy blocks will be increased by applying a multiplier thereto equivalent to the number of apartments.

(3) Capacity of all equipment will be based on name plate rating taken to the nearest 1/10 K.W. with the exception of instantaneous water heating, X-ray and special apparatus, in which case the Company reserves the right to make tests for maximum load.

(4) Single phase domestic motors aggregating not over 5 horsepower will be permitted under this schedule. There will be no increase in minimum charge for such service.

(5) All rooms are counted active except alcoves, unfinished attic and basement rooms, bath rooms, breakfast nooks (less than 80 square feet), pantries, cellars, storage rooms, closets, entries, furnace rooms, hallways (less than 120 square feet), laundries, lavatories, plant conservatories, porches not permanently enclosed and enclosed porches of less than 120 square feet, garages without living quarters. Barns will be counted as one active room for every four lighting outlets.

SCHEDULE D-2 (Cont'd.)

SPECIAL CONDITIONS (Cont'd.)

(6) The owner or operator of an apartment house of four or more separately metered apartments (where no major equipment is installed) may elect, upon assuming responsibility for payment of all electric bills, to have all the meters billed under this schedule on a monthly service charge basis in lieu of the regular monthly minimum charge basis, but in no case shall this provision apply when less than 50 per cent of the total number of such meters are turned on.

The rate applicable to the service charge basis will be as follows:

Service Charge not to be Prorated for Part Month Service.

	<u>Gross</u>	<u>Net</u>
Service charge including first 4 Kw-hrs. or less per meter per month.....	\$0.60	\$0.50
Next 46 Kw-hrs. per meter per month.....	6.3¢	5.3¢ per Kw-hr.
Over 50 Kw-hrs. - The corresponding rates in regular schedule will apply.		

SCHEDULE L-1

(Canceling Schedule L-1, C.R.C. Sheet No. 437-E  
and Schedule L-2, C.R.C. Sheet No. 494-E)

COMMERCIAL LIGHTING:

Applicable to commercial lighting service including lamp socket appliances, single phase motors of not to exceed three horsepower total capacity, and other services used directly or indirectly for the production of light. Not applicable to standby or auxiliary service and to service operated in parallel with a customer's generating plant.

TERRITORY:

Applicable to service within all incorporated limits served by the company.

RATE:

		<u>Gross</u>	<u>Net</u>
(a)			
First	12 Kw-hr. or less per meter per month	\$1.00	\$0.90
Next	12 Kw-hr. per meter per month	5.50¢	4.50¢ per Kw-hr.
Next	800 Kw-hr. per meter per month		3.95¢ per Kw-hr.
Next	1000 Kw-hr. per meter per month		3.00¢ per Kw-hr.
Next	8000 Kw-hr. per meter per month		2.40¢ per Kw-hr.
(b)	For consumptions in excess of 10,000 Kw-hr. per month:		
First	5000 Kw-hr. per meter per month at \$144.94 Gross, 142.96 Net		
Next	100 Kw-hr. per Kw. of maximum demand	2.40¢	per Kw-hr.
Next	100 Kw-hr. per Kw. of maximum demand	1.25¢	per Kw-hr.
	All excess Kw-hr. per Kw. of maximum demand	1.00¢	per Kw-hr.

MINIMUM CHARGE:

Single phase motors exceeding three horsepower total connected load may be supplied through the lighting meter, in which case the minimum charge shall be \$1.00 per month per horsepower connected.

PROMPT PAYMENT DISCOUNT:

All bills are rendered at the gross rate shown above. A discount reducing the bill to the net rate is made for prompt payment in case bills are paid on or before the date due as shown on the bill rendered.

SPECIAL CONDITIONS:

(1) The maximum demand will be measured by demand meters or indicators to be furnished and installed by the company, where the consumption in any month is in excess of 10,000 Kw-hrs. In cases where the consumption has exceeded 10,000 Kw-hrs. in a month during which the maximum demand has not been measured, the demand to be used in determining the bill under rate (b) shall be 50 Kw. or as determined by test at the option of the company.

SCHEDULE L-1 (Cont'd.)

SPECIAL CONDITIONS:(Cont'd.)

(2) The maximum demand in any month will be the average number of kilowatts indicated or recorded by the above meters in that 15 minute interval in which the consumption of electric energy hereunder is greater than in any other 15-minute interval in the month, but in no case will the maximum demand used in determining the bill be less than 50 Kw., nor less than 50% of the highest demand determined during the preceding eleven months.

In the case of hoists, elevators, welding machines, furnaces and other installations where the energy demand is intermittent, or subject to violent fluctuations, the company may base the consumer's maximum demand upon a 5-minute interval instead of a 15-minute interval.

SCHEDULE L-2

(Canceling Schedule L-1, C.R.C. Sheet No. 437-E  
and Schedule L-2, C.R.C. Sheet No. 494-E)

COMMERCIAL LIGHTING:

Applicable to commercial lighting service including lamp socket appliances, single phase motors of not to exceed three horsepower total capacity, and other services used directly or indirectly for the production of light. Not applicable to standby or auxiliary service and to service operated in parallel with a customer's generating plant.

TERRITORY:

Applicable to service in entire territory served by the company outside of incorporated limits.

RATE:

(a)		Gross	Net
First	12 Kw-hr. or less per meter per month	\$1.00	\$0.90
Next	188 Kw-hr. per meter per month.....	5.90¢	4.90¢ per Kw-hr.
Next	800 Kw-hr. per meter per month.....		3.95¢ per Kw-hr.
Next	1000 Kw-hr. per meter per month.....		3.00¢ per Kw-hr.
Next	8000 Kw-hr. per meter per month.....		2.40¢ per Kw-hr.

(b) For consumptions in excess of 10,000 Kw-hr. per month:

First	5000 Kw-hr. per meter per month at \$145.69 Gross, \$143.71 Net
Next	100 Kw-hr. per Kw. of maximum demand...2.40¢ per Kw-hr.
Next	100 Kw-hr. per Kw. of maximum demand...1.25¢ per Kw-hr.
All excess	Kw-hr. per Kw. of maximum demand...1.00¢ per Kw-hr.

MINIMUM CHARGE:

Single phase motors exceeding three horsepower total connected load may be supplied through the lighting meter, in which case the minimum charge shall be \$1.00 per month per horsepower connected.

PROMPT PAYMENT DISCOUNT:

All bills are rendered at the gross rate shown above. A discount reducing the bill to the net rate is made for prompt payment in case bills are paid on or before the date due as shown on the bill rendered.

SPECIAL CONDITIONS:

(1) The maximum demand will be measured by demand meters or indicators to be furnished and installed by the company, where the consumption in any month is in excess of 10,000 Kw-hrs. In cases where the consumption has exceeded 10,000 Kw-hrs. in a month during which the maximum demand has not been measured, the demand to be used in determining the bill under rate (b) shall be 50 Kw. or as determined by test at the option of the company.

SCHEDULE L-2 (Cont'd.)

SPECIAL CONDITIONS: (Cont'd.)

(2) The maximum demand in any month will be the average number of kilowatts indicated or recorded by the above meters in that 15-minute interval in which the consumption of electric energy hereunder is greater than in any other 15-minute interval in the month, but in no case will the maximum demand used in determining the bill be less than 50 Kw. nor less than 50% of the highest demand determined during the preceding eleven months.

In the case of hoists, elevators, welding machines, furnaces and other installations where the energy demand is intermittent, or subject to violent fluctuations, the company may base the consumer's maximum demand upon a 5-minute interval instead of a 15-minute interval.

SCHEDULE L-3

(Cancelling Schedule L-3, C.R.C. Sheet No.478-E)

STREET AND HIGHWAY LIGHTING - BRACKET ARMS:

Applicable to city, towns, lighting districts or supervisory lighting districts for service to street or highway lighting installations using series incandescent lamps mounted on bracket, mast arm or center suspension construction, and supplied from overhead lines, where company owns and maintains the entire equipment.

TERRITORY:

Entire territory served.

RATE:

Candle Power Lamps	Rate per Lamp per Month Burning All Night Installations of			Reduction per Lamp for Midnight Service
	<u>0-25 Lamps</u>	<u>26-100</u>	<u>Over 100</u>	
60	\$1.87	\$1.59	\$1.49	16¢
80	2.11	1.78	1.68	21¢
100	2.31	1.93	1.83	27¢
250	3.27	2.73	2.57	48¢
*400	4.18	3.47	3.23	63¢
*600	5.22	4.51	3.94	84¢

\*Includes a diffusing globe, special highway reflector, or equivalent special reflector.

SPECIAL CONDITIONS:

(a) For the purpose of calculating rates for less than all night service, it will be assumed that the average hour of turning off all night service is 5:30 a.m. and the average hours of nightly service used:

All Night Service (4000 hours per year) 11 hours per Night.  
Midnight Service (2000 hours per year) 5½ hours per Night.

(b) Contracts are made for a period of one to five years.

(c) If one municipality or lighting district adjoins a second, and the lighting of both are fed from the same circuit, then the two districts shall earn a rate based on their combined installation, provided the hours of burning and the characteristics of the circuits are the same.

SCHEDULE L-4

(Canceling Schedule L-4, C.R.C. Sheet No. 479-E)

SERIES MUNICIPAL STREET LIGHTING - ORNAMENTAL POST.

Applicable to service to electrolier or other lighting systems where the customer owns the equipment and the company supplies energy at one or more central points.

TERRITORY:

Entire territory served.

RATE:

(A) Energy, switching and maintenance.

<u>Candlepower of Lamp</u>	<u>Rates per Lamp per Month</u>	
	<u>Midnight Service</u>	<u>All Night Service</u>
100	\$0.95	\$1.26
250	1.36	1.74
400	1.77	2.20
600	2.22	2.84
1000	3.22	4.07

(B) Energy and switching only.

100	.55	.75
250	.85	1.05
400	1.20	1.45
600	1.65	1.90
1000	2.50	3.00
300 watt multiple	1.65	2.05

SPECIAL CONDITIONS:

(a) Under Rate A company renews lamps, repairs all equipment on standards, cleans glassware and paints or cleans standards, but does not repair underground cables or conduits where cable is damaged outside of conduit within the lighting standard.

(b) Under Rate B company supplies energy at one or more central points and switching service only.

(c) Where systems are taken over for service under this schedule or changed from Rate B to Rate A hereunder, they must meet the approval of the company as to construction and condition, and the company may decline to grant these rates if the system is not up to the standard set for other systems operating under this schedule.

(d) A discount of 15 per cent from the above rates will be given for all lamps served within the central lighting area of



(d) Continued.

the City of San Diego within the following boundary:

Beginning at a point where the east side of 16th Avenue extended would intersect the bay shore; thence north along the east side of 16th Avenue to Russ Boulevard; thence west along the north side of Russ Boulevard to Eleventh Street; thence north on the east side of Eleventh Street to Date Street; thence west along the north side of Date Street to Sixth Avenue; thence north along the east side of Sixth Avenue to Laurel Street; thence west along the north side of Laurel Street to the bay shore; thence south along the bay shore to point of beginning.

This description of central lighting area may be covered by reference to appropriately filed map.

(e) Contracts will be required for a period of at least one year.

SCHEDULE C-1

(Canceling Schedule C-1, C.R.C. Sheet Nos. 409-E and 410-E)

COMBINATION RATE FOR RESIDENTIAL SERVICE:

Applicable to residential domestic cooking and/or water heating service with which domestic lighting, space heating and power service including lamp socket devices, may be combined. Not applicable to lighting alone.

TERRITORY:

Applicable to service within all incorporated limits served by the company.

RATE:

Applicable to residences, individual flats or individual apartments of seven (7) active rooms or less.

	<u>Gross</u>	<u>Net</u>
First 12 Kw-hr. or less per meter per month	\$1.00	\$0.90
Next 23 Kw-hr. per meter per month.....	5.9¢	4.9¢ per Kw-hr.
Next 65 Kw-hr. per meter per month.....		3.0¢ per Kw-hr.
Next 100 Kw-hr. per meter per month.....		2.0¢ per Kw-hr.
Over 200 Kw-hr. per meter per month.....		1.5¢ per Kw-hr.

For residences, individual flats or individual apartments of more than seven (7) rooms, the second block of 5.9¢ gross or 4.9¢ net shall be increased 5 Kw-hr. for each additional room.

MINIMUM CHARGE:

50¢ per month per kilowatt of connected capacity of domestic power, heating and cooking apparatus, but not less than \$3.00 per month.

The connected capacity for the determination of the minimum bill of customers served under this rate will be determined by taking the sum of major electrical apparatus connected, major apparatus being any device having a capacity in excess of 1000 watts.

SPECIAL CONDITIONS:

(1) This schedule applies only where customer installs and uses an electric range and/or an electric water heater of at least 4 kilowatt capacity.

(2) Active rooms are all rooms, except bathrooms, halls, porches, cellars and attics.

(3) Connected load will be taken as the name plate rating of all major heating, cooking and water heating apparatus which may be connected at any one time taken to the nearest 1/10 kilowatt and single phase power service of 3 horsepower or less may be combined under this schedule in which case each horsepower of connected load shall be considered equivalent to 1 kilowatt of connected load in determining the minimum charge.

SCHEDULE C-1 (Cont'd.)

SPECIAL CONDITIONS: (Cont'd.)

(4) Service under this schedule will be granted in the first instance for not less than 12 months.

(5) In case of purely seasonal service or where the connected load of air heaters equals or exceeds the connected load of other appliances, the minimum bill may be accumulative on a 12 months' basis. This provision will not apply in case a discount is allowed for controlled water heating as outlined in Special Conditions (6) and (7).

(6) Where an electric water heater conforming to Special Condition (7) is installed and used in conjunction with an electric range of not less than 4 K.W. capacity permanently installed and regularly used for all household cooking, a discount of 1/2 cent per Kw-hr. will be made for all consumption on the 1-1/2 cent block.

(7) The discount specified in Special Condition (6) is applicable only to automatically controlled storage type water heaters, used for the entire household water heating requirements, and not used in conjunction with auxiliary equipment of any kind. The storage tank shall be efficiently insulated and have a capacity of not less than 24 gallons. The heating elements shall be thermostatically controlled and have a total rating of not to exceed 50 watts per gallon on tank capacity. All water heaters will be subject to the approval of the company as to their qualification for the discount provision outlined in Special Condition (6) above.

The company may at its election and expense, install a time switch on such water heater circuits so as to disconnect the heating elements during the peak load hours, which shall not be more than five hours during each day, to be selected by the company and specified from time to time; or the company may elect to install a load limit switch between the water heater and the range so that the water heater elements will be disconnected during the time the electric range is in operation.

SCHEDULE C-2

(Cancelling Schedule C-1, C.R.C. Sheet Nos. 409-E and 410-E)

COMBINATION RATE FOR RESIDENTIAL SERVICE:

Applicable to residential domestic cooking and/or water heating service, with which domestic lighting, space heating and power service, including lamp socket devices, may be combined. Not applicable to lighting alone.

TERRITORY:

Applicable to service in entire territory served by the company outside of incorporated limits.

RATE:

Applicable to residences, individual flats or individual apartments of seven (7) active rooms or less.

	<u>Gross</u>	<u>Net</u>
First 12 Kw-hr or less per meter per month...	\$1.00	\$ .90
Next 25 Kw-hr per meter per month.....	6.3¢	5.3¢ per Kw-hr
Next 65 Kw-hr per meter per month.....		3.0¢ per Kw-hr
Next 100 Kw-hr per meter per month.....		2.0¢ per Kw-hr
Over 200 Kw-hr per meter per month.....		1.5¢ per Kw-hr

For residences, individual flats or individual apartments of more than seven rooms, the second block of 6.3¢ gross, or 5.3¢ net, shall be increased 5 Kw-hr for each additional room.

MINIMUM CHARGE:

50¢ per month per kilowatt of connected capacity of domestic power, heating and cooking apparatus, but not less than \$3.00 per month.

The connected capacity for the determination of the minimum bill of customers served under this rate will be determined by taking the sum of major electrical apparatus connected, major apparatus being any device having a capacity in excess of 1000 watts.

SPECIAL CONDITIONS:

(1) This schedule applies only where customer installs and uses an electric range and/or electric water heater of at least 4 kilowatt capacity.

(2) Active rooms are all rooms, except bathrooms, halls, porches, cellars and attics.

(3) Connected load will be taken as the name plate rating of all major heating, cooking and water heating apparatus which may be connected at any one time taken to the nearest 1/10 kilowatt

SCHEDULE C-2 (Cont'd)

SPECIAL CONDITIONS (Cont'd)

and single phase power service of 3 horsepower or less may be combined under this schedule, in which case each horsepower of connected load shall be considered equivalent to 1 kilowatt of connected load in determining the minimum charge.

(4) Service under this schedule will be granted in the first instance for not less than twelve months.

(5) In case of purely seasonal service, or where the connected load of air heating equals or exceeds the connected load of other appliances, the minimum bill may be made accumulative on a 12 months' basis. This provision will not apply in case a discount is allowed for controlled water heating as outlined in Special Conditions (6) and (7).

(6) Where an electric water heater, conforming to Special Condition (7) is installed and used in conjunction with an electric range of not less than 4 K.W. capacity permanently installed and regularly used for all household cooking, a discount of 1/2 cent per Kw-hr will be made for all consumption on the 1/2 cent block.

(7) The discount specified in Special Condition (6) is applicable only to automatically controlled storage type water heaters, used for the entire household water heating requirements, and not used in conjunction with auxiliary equipment of any kind. The storage tank shall be efficiently insulated and have a capacity of not less than 24 gallons. The heating elements shall be thermostatically controlled and have a total rating of not to exceed 50 watts per gallon of tank capacity. All water heaters will be subject to the approval of the company as to their qualification for the discount provision outlined in Special Condition (6) above.

The company may, at its election and expense, install a time switch on such water heater circuits so as to disconnect the heating elements during the peak load hours, which shall not be more than five hours during each day, to be selected by the company and specified from time to time; or the company may elect to install a load limit switch between the water heater and the range so that the water heater elements will be disconnected during the time the electric range is in operation.

SCHEDULE C-3

(Cancelling Schedule C-2, C.R.C. Sheet No. 439-E)

Rates and conditions to be the same as included under  
Schedule C-2, Sheet No. 439-E.

SCHEDULE P-1

(Cancelling Schedule P-1, C.R.C. Sheets Nos. 480-E and 427-E)

GENERAL POWER SERVICE:

Applicable to alternating current for general commercial and industrial power service and to commercial heating and cooking service and rectifier service. Not applicable to stand-by or auxiliary service or to service operated in parallel with a customer's generating plant.

TERRITORY:

Entire territory served.

RATE:

<u>Horsepower of Connected Load</u>	<u>Rate Per Kw-hr for Monthly Consumption of</u>			
	<u>First 50 Kw-hr per hp.</u>	<u>Next 50 Kw-hr per hp.</u>	<u>Next 100 Kw-hr per hp.</u>	<u>Over 200 Kw-hr per hp.</u>
1- 4 hp.	4.9¢	2.3¢	1.5¢	1.2¢
5- 9 hp.	3.8	2.2	1.3	1.1
10- 24 hp.	3.4	2.0	1.2	1.0
25- 49 hp.	3.0	1.9	1.1	0.8
50- 99 hp.	2.6	1.8	1.0	0.7
100-249 hp.	2.3	1.6	0.95	0.7
250-499 hp.	2.1	1.4	0.85	0.7
500 and over	2.0	1.2	0.8	0.6

MINIMUM CHARGE:

First 50 hp of connected load - \$1.00 per horsepower per month.  
Over 50 hp of connected load - .75 per horsepower per month.  
But in no case less than \$5.00 per month for 3 phase service.

INTERMITTENT SERVICE:

In case of intermittent or seasonal service, customer may elect to pay for all energy used at the above rate, without a minimum charge, by the payment of an annual service charge in addition, as follows:

First 10 hp of connected load - \$5.00 per hp per year.  
Over 10 hp of connected load - \$3.50 per hp per year.  
But in no case less than \$25.00 per year for 3 phase service.

This service charge will be payable in five equal monthly installments each year, beginning with the first month after selecting such basis.

SPECIAL CONDITIONS:

(a) Voltage: This schedule of rates will apply to alternating current service rendered at standard voltage in accordance with the Rules and Regulations of the company. All necessary transformers to obtain such voltage will be supplied, owned and maintained by the company.

SCHEDULE P-1 (Cont'd)

SPECIAL CONDITIONS (Cont'd)

(b) Any consumer may obtain the rate for a larger installation by guaranteeing the rates and minimum charge applicable to the larger installation.

(c) Customer may not decrease his connected load temporarily for the purpose of avoiding payment of minimum bills.

(d) The above rates and minimum charges may be based on horsepower of measured maximum demand instead of horsepower of connected load, providing the installation consists of at least two motors and has a total connected capacity of at least 50 horsepower, in which case the horsepower of demand on which the rates and minimum charges will be based will not be less than 40% of the connected load or the customer may elect to have his rates and minimum charges based on the highest maximum demand occurring during the current month and the eleven preceding months. Such selection shall be for a period of not less than one year. In no case shall the minimum be less than \$50.00 per month.

(e) When the installation consists of two or more motors, the customer may contract for a certain predetermined maximum demand between the limits of 15 horsepower and 50 horsepower, and the company will, at the customer's expense, install a suitable load limiting device, which will prevent the use of connected capacity in excess of the predetermined amount, but not less than the rated capacity of the largest motor installed. Rates and minimum charges will be based on the maximum demand contracted for.

(f) The maximum demand in any month shall be the average horsepower input (746 watts equivalent) indicated or recorded by instruments to be supplied, owned and maintained by the company and at the company's expense upon the consumer's premises, adjacent to watt-hour meters, in the 15-minute interval in which the consumption of electric energy is greater than in any other 15-minute interval in the month, or at the option of the company the maximum demand may be determined by test.

In case of connected loads of 500 horsepower or over, the company may base the consumer's maximum demand upon a 30-minute interval instead of a 15-minute interval.

In the case of hoists, elevators, welding machines, furnaces and other installations where the energy demand is intermittent, or subject to violent fluctuations, the company may base the consumer's maximum demand upon a 5-minute interval instead of a 15-minute interval.



SCHEDULE P-1 (Cont'd)

SPECIAL CONDITIONS (Cont'd)

(g) Maximum demand meters when used will be installed and maintained by the company at its expense.

(h) Where the primary use of power is seasonal, the customer may elect to have the minimum charge, based on horsepower of connected load, made accumulative over a 12-months' period.

(i) Wherever, upon test, any motor is found to be delivering more than 125% of its capacity, as indicated by its name plate rating, the company may disregard the name plate rating and base its charges upon the actual output as calculated from test.

(j) Alternating current metered to motor generator sets, mercury arc rectifiers, A.C. Compens-Arcs, or A.C. motion picture projection machines, where such energy is used for the purpose of serving motion picture projection machines only, and not used for general lighting purposes, may be billed to the consumer under this schedule. No other lighting service is included under this schedule.

SCHEDULE P-2

(Cancelling Schedule P-2, C.R.C. Sheet No. 428-E)

WHOLESALE POWER SERVICE:

This schedule is applicable to energy supplied for all power purposes when the connected load in motors is 100 horsepower or greater, energy to be delivered and measured at primary potential of 2300, 4000 or 11,500 volts, consumer supplying necessary transformers.

TERRITORY:

Entire territory served.

RATE:

(1) Demand Charge  
First 200 kw of demand per month..... \$1.25 per kw  
Over 200 kw of demand per month..... 1.00 per kw

Plus

(2) Energy Charge  
First 50,000 kw-hr per month..... 1.0¢ per kw-hr  
Over 50,000 kw-hr per month..... 0.7¢ per kw-hr

The above rate is based on a price for fuel oil f.o.b. the company's oil tanks, of one dollar (\$1.00) per barrel, or for natural gas used for fuel in the company's electric generating plant, of sixteen cents (16¢) per M. cubic feet at Rose Canyon terminal station. Whenever the price paid by the company for natural gas f.o.b. Rose Canyon terminal station shall vary either above or below said price of sixteen cents (16¢) per M. cubic feet, then the above base rate shall be increased or decreased by twenty-five thousandth (0.025¢) of a cent per kilowatt-hour for each one cent (1¢) that said price of natural gas may vary above or below said sixteen cents (16¢) except that in any month during which fuel oil is burned in the company's plant for the generation of electric energy, and whenever the price paid by the company for such fuel oil f.o.b. its storage tanks shall vary above or below said price of one dollar (\$1.00) per barrel, then the above base rate shall be increased or decreased by two hundredths (0.02¢) of a cent per kilowatt-hour for each change of five cents (5¢) that said price of fuel oil may vary above or below one dollar (\$1.00).

In applying the above fuel clause the customer's rate per kilowatt-hour shall be based on the fuel used during the monthly billing period. If both fuels were used during the month and the consumption was less than 400,000 kw-hrs, then the rate shall be based on either the above oil or gas clause, depending on which fuel was used in excess of the other, in terms of total heat units. If the consumption was 400,000 kw-hrs. or more and the oil used was not more than 10 per cent of the total in terms of heat units, then the gas clause shall be used. In the event the consumption was in excess of 400,000 kw-hrs. and more than 10 per cent of the fuel in terms of heat units was oil, then the energy rate shall be determined on the basis of the heat units consumed by the respective fuels.

SCHEDULE P-2 (Cont'd)

MINIMUM CHARGE:

The minimum charge will be at least \$12.00 per connected horsepower per year.

SPECIAL CONDITIONS:

(a) The total charge per month is the sum of the demand and energy charge.

(b) The maximum demand in any month will be the average kilowatt delivery in the fifteen minute interval in which the consumption of electric energy is greater than in any other fifteen minute interval in the month, but in no case will such maximum demand be less than 50% of the total connected load. For maximum demands occurring between the hours of 11:00 P.M. and 6:00 A.M. on the following day, only 60% of such maximum demands shall be considered when computing demand charge.

(c) Lighting will be allowed under this schedule of rates provided the connected load in lighting does not exceed 10% of the connected load in power. The customer must furnish his own transformers for the purpose of reducing the voltage to that of his lighting circuit. All energy furnished for both power and light shall be measured by means of one meter.

(d) This schedule is not applicable to stand-by or auxiliary service, nor to service operated in parallel with a customer's generating plant.

SCHEDULE P-3

(Canceling Schedule P-3, C.R.C. Sheet Nos. 481-E and 415a-E)

AGRICULTURAL POWER SERVICE:

Applicable to general agricultural and reclamation service including pumping, feed choppers, milking machines, heating for incubators, brooders, poultry house lighting and general farm use, but excluding cooking and general lighting service.

TERRITORY:

Entire territory served.

RATE:

ENERGY CHARGE IN ADDITION TO  
THE SERVICE CHARGE

Size Installation	Annual Service Charge per H.P.	Rate per Kw-hr. for Consumptions per H.P. per year of	
		First 1000 Kw-hr.	All over 1000 Kw-hr.
2- 4 H.P.	\$6.50*	1.6¢	1.2¢
5-14 H.P.	5.50	1.5¢	1.1¢
15-49 H.P.	5.00	1.4¢	1.0¢
50-99 H.P.	4.50	1.3¢	0.9¢
100 H.P. & Over	3.90	1.2¢	0.8¢

\*In no case will the total annual service charge be less than \$13.00 for single phase service nor less than \$19.50 for three phase service.

SPECIAL CONDITIONS:

(a) Agricultural Year: Under this schedule the agricultural year shall commence with the regular meter reading taken in April and end with the regular meter reading taken in April of the succeeding year.

(b) Payment of Service Charges: Service Charges will be payable in six equal monthly installments during the months of May to October, inclusive.

(c) Guaranteeing Rates for Larger Size Installation: Any consumer may obtain the rate for a larger installation by guaranteeing the rates and service charge of that larger installation.

(d) Voltage: This rate applies to service rendered at 230, 460 or 2300 volts at the option of the consumer. All necessary transformers to obtain such voltage to be installed, owned and maintained by the company.

(e) Contracts: The company may require a contract for service under this schedule for a period not to exceed three years when service is first rendered and thereafter from year to year.

(f) Connected Load: The above rates and annual charges will be based on the largest load that may be connected at any one time. For the purpose of calculating service charge one kilowatt of lighting or heating load will be rated at one horsepower.

SPECIAL CONDITIONS: (Cont'd.)

(g) Charges for service begun or discontinued during the Agricultural Year: When service is first begun or permanently discontinued during the agricultural year, the demand charge will be prorated according to the proportion of the six months' season from April 1st to September 30th during which service is taken. Consumers permanently increasing or decreasing their connected load will have their demand charges adjusted upon the same basis, and the relative position in the energy blocking will be maintained.

No adjustment will be made when installations are shut down for a few months or for the balance of the season.

Customers who resume service within twelve months after service has been discontinued will be required to pay all service charge installments which would have been billed during the shut-down period.

SCHEDULE P-7

(Canceling Schedule P-7, C.R.C. Sheet No. 499-E)

RESALE POWER AND LIGHTING SERVICE:

This schedule is applicable to alternating current energy supplied to other electric utilities for distribution and resale, except as outlined in Special Condition (4) below. Service is supplied at standard voltages at 2300 or over.

TERRITORY:

Entire territory served.

RATE:

Demand Charge.

First 50 kilowatts or less of demand per month	\$150.00 per mo.
Next 150 kilowatts of demand per month.....	1.50 per Kw.
Next 300 kilowatts of demand per month.....	1.25 per Kw.
Over 500 kilowatts of demand per month.....	1.00 per Kw.

Plus Current Charge.

First 5,000 Kw-hr. per meter per month.....	2.10¢ per Kw-hr.
Next 20,000 Kw-hr. per meter per month.....	1.60¢ per Kw-hr.
Next 50,000 Kw-hr. per meter per month.....	1.35¢ per Kw-hr.
Next 125,000 Kw-hr. per meter per month.....	1.10¢ per Kw-hr.
Next 200,000 Kw-hr. per meter per month.....	.90¢ per Kw-hr.
Over 400,000 Kw-hr. per meter per month.....	.85¢ per Kw-hr.

FUEL CLAUSE:

The above rate is based on a price for fuel oil f.o.b. the company's oil tanks, of one dollar (\$1.00) per barrel, or for natural gas used for fuel in the company's electric generating plant of sixteen cents (16¢) per M. cubic feet at Rose Canyon terminal station. Whenever the price paid by the company for natural gas f.o.b. Rose Canyon terminal station shall vary either above or below said price of sixteen cents (16¢) per M. cubic feet, then the above base rate shall be increased or decreased by twenty-five thousandth (0.025¢) of a cent per kilowatt hour for each one cent (1¢) that said price of natural gas may vary above or below said sixteen cents (16¢) except that in any month during which fuel oil is burned in the company's plant for the generation of electric energy, and whenever the price paid by the company for such fuel oil f.o.b. its storage tanks shall vary above or below said price of one dollar (\$1.00) per barrel, then the above base rate shall be increased or decreased by two hundredths (0.02¢) of a cent per kilowatt hour for each change of five cents (5¢) that said price of fuel oil may vary above or below one dollar (\$1.00).

In applying the above fuel clause the customer's rate per kilowatt hour shall be based on the fuel used during the monthly billing period. If both fuels were used during the month and the consumption was less than 400,000 Kw-hrs., then the rate shall be based on either the above oil or gas clause

depending on which fuel was used in excess of the other in terms of total heat units. If the consumption was 400,000 kilowatt hours or more and the oil used was not more than 10 per cent of the total in terms of heat units, then the gas clause shall be used. In the event the consumption was in excess of 400,000 kilowatt hours and more than 10 per cent of the fuel in terms of heat units was oil, then the energy rate shall be determined on the basis of the heat units consumed by the respective fuels.

SPECIAL CONDITIONS:

(1) Determination of Demand: The maximum demand will be measured by demand meters or indicators to be furnished and installed by the company. The maximum demand in any month will be the average number of kilowatts indicated or recorded by the above meters in that 15-minute interval in which the consumption of electric energy hereunder is greater than in any other 15-minute interval in the month.

In the case of hoists, elevators, welding machines, furnaces and other installations where the energy demand is intermittent, or subject to violent fluctuations, the company may base the consumer's maximum demand upon a 5-minute interval instead of a 15-minute interval.

(2) The total charge for any one month is the sum of the demand and energy charges.

(3) The demand charge for any one month shall be based on not less than 50 per cent of the highest demand determined during the preceding eleven months.

(4) This schedule is not applicable to stand-by or auxiliary service, nor to service operated in parallel with generating plant of customer; nor is it applicable for resale of energy by any person, firm, corporation or other organization to be resold in any area served by this company.

SCHEDULE N-1

(Canceling Schedule No. N-1, C.R.C. Sheet No. 225-G)

Rates and conditions to be the same as included under Schedule No. N-1, C.R.C. Sheet No. 225-G and the following additional provisions to be included under rates and the Special Conditions therein.

Insert Following Under Rate in Schedule

Minimum Charge

The minimum charge will be \$1.00 gross or \$0.90 net.

SPECIAL CONDITIONS: Insert Following.

The owner or operator of an apartment house of four or more separately metered apartments may elect, upon assuming responsibility for payment of all gas bills, to have all the meters billed under this schedule on a monthly service charge basis in lieu of the regular monthly minimum charge basis, but in no case shall this provision apply when less than 50 per cent of the total number of such meters are turned on.

The rate applicable to the service charge basis will be as follows:

Service Charge (not to be prorated for part month service)

<u>Gross</u>	<u>Net</u>	
\$0.60	\$0.50	per meter per month.

Plus Consumption Charge

First 200 cu.ft. per meter per month 20.0¢ per 100 cu.ft.  
Over 200 cu.ft. per meter per month the corresponding rates in regular schedule will apply.



SCHEDULE NO. N-2

(Canceling Schedule No. N-2, C.R.C. Sheet No. 226-G)

Rates and conditions to be the same as included under Schedule No. N-2, C.R.C. Sheet No. 226-G, and the following additional provisions to be included under the rates and Special Conditions therein.

Insert Following Under Rate in Schedule

Minimum Charge

The minimum charge will be \$1.25 gross or \$1.15 net.

SPECIAL CONDITIONS: Insert Following.

The owner or operator of an apartment house of four or more separately metered apartments may elect, upon assuming responsibility for payment of all gas bills, to have all the meters billed under this schedule on a monthly service charge basis in lieu of the regular monthly minimum charge basis, but in no case shall this provision apply when less than 50 per cent of the total number of such meters are turned on.

The rate applicable to the service charge basis will be as follows:

Service Charge (not to be prorated for part month service)

<u>Gross</u>	<u>Net</u>
\$0.85	\$0.75 per meter per month.

Plus Consumption Charge

First 200 cu.ft. per meter per month 20.0¢ per 100 cu.ft.  
Over 200 cu.ft. per meter per month the corresponding rates in regular schedule will apply.

SCHEDULE NO. 3

(Cancelling Schedule No. 3, C.R.C. Sheet No. 239-G)

GENERAL GAS SERVICE:

Artificial gas will be supplied under this schedule for domestic and commercial purposes.

TERRITORY:

Applicable in the City of Escondido.

RATE:

		<u>Gross</u>	<u>Net</u>	
First 500 cu.ft. or less per meter	per month.....	\$1.00	\$0.90	
Next 1,000 cu.ft. per meter per month...		1.59	1.49	Per M cu.ft.
" 1,500 " " " " " " " ...		1.34	1.24	" " "
" 2,000 " " " " " " " ...		1.04	.94	" " "
" 5,000 " " " " " " " ...			.79	" " "
Over 10,000 " " " " " " " ...			.64	" " "

The above rate is based on the present price of oil at 95 cents per barrel, f.o.b. San Diego, and is derived from the application of the basic rate and oil clause as herein revised and established in this decision. (The differential so established is 21 cents per M cu.ft. below the basic rate.) Such basic rate and oil clause shall hereafter be used as a basis for adjusting the above rate to meet oil price changes.

MINIMUM CHARGE:

The minimum charge is \$1.00 gross, or \$0.90 net.

PROMPT PAYMENT DISCOUNT:

All bills are rendered at the gross rate shown above. A discount reducing the bill to the net rate as shown is made for prompt payment in case bills are paid on or before the date due as shown on the bill rendered.

MODIFICATION OF C.R.C. DECISION NO. 9412 (APPLICATION NO. 6078)

The following basic rate and oil clause shall hereafter be used in lieu of the basic rate and oil clause established and set forth in Schedule No. 3, Decision No. 9412. In all other respects the provisions applicable to Schedule No. 3 in said decision shall remain in full force and effect.

RATE:

		<u>Gross</u>	<u>Net</u>		
First	500 cu. ft. or less per meter				
	per month .....	\$1.00	\$0.90		
Next	1,000 cu. ft. per meter per month...	1.80	1.70	Per M	cu.ft.
"	1,500 " " " " " " " ...	1.55	1.45	"	"
"	2,000 " " " " " " " ...	1.25	1.15	"	"
"	5,000 " " " " " " " ...		1.00	"	"
Over	10,000 " " " " " " " ...		.85	"	"

The above rate, except for the first 500 cu. ft., is subject to decrease on the basis of 3 cents per 1,000 cu. ft. for each 10 cents decrease in the cost of oil below the price of \$1.65 per barrel f.o.b. San Diego, upon approval of the Railroad Commission of the State of California. Change to be to the nearest one cent.

SCHEDULE NO. 1

(Cancelling Schedule No. 1, C.R.C. Sheet No. 50-E)

GENERAL SERVICE:

Applicable to general steam heating service.

TERRITORY:

A portion of the business district of the City of San Diego, California, as described in the Preliminary Statement.

RATE:

<u>Consumption in Pounds of Condensation</u>	<u>Rate per 1000 Lbs.</u>
First 75,000 lbs. per month.....	\$.89
Next 75,000 lbs. per month.....	.80
Next 150,000 lbs. per month.....	.71
Over 300,000 lbs. per month.....	.62

MINIMUM CHARGE:

<u>Cubic Feet to be Heated</u>	<u>Minimum Monthly Charge</u>
Up to 50,000.....	\$2.50
50,001 to 100,000.....	4.50
100,001 to 150,000.....	6.25
150,001 to 200,000.....	7.75
200,001 to 250,000.....	9.25
250,001 to 300,000.....	10.50
300,001 to 350,000.....	11.50
350,001 to 400,000.....	12.50
400,001 to 450,000.....	13.50
450,001 to 500,000.....	14.50
500,001 to 600,000.....	16.00
600,001 to 700,000.....	17.50
700,001 to 800,000.....	18.50
800,001 to 900,000.....	19.25
900,001 to 1,000,000.....	20.00
Over 1,000,000.....	20.00

SPECIAL CONDITION:

Service under this schedule is granted in the first instance for not less than one year.

SCHEDULE NO. 2

(Cancelling Schedule No. 2, C.R.C. Sheet No. 52-H)

OPTIONAL GENERAL SERVICE:

Applicable to general steam heating service.

TERRITORY:

A portion of the business district of the City of San Diego, California, as described in the Preliminary Statement.

RATE:

- (1) Service Charge  
\$50.00 per service per month.

Plus

- (2) Commodity Charge  
40¢ per 1,000 lbs. of condensation per month.

- (3) Fuel Clause

The above commodity charge is based on a price for fuel oil f.o.b. the Company's oil tanks, of seventy-five cents (75¢) per barrel, or for natural gas used for fuel in Company's electric generating plant of twelve cents (12¢) per M cubic feet at Rose Canyon terminal station. Whenever the price paid by the Company for natural gas f.o.b. Rose Canyon terminal station shall vary above said price of twelve cents (12¢) per M cubic feet, then the above commodity charge shall be increased by three cents (3¢) per thousand pounds for each one cent (1¢) that said price of natural gas may be in excess of said twelve cents (12¢) except that in any month during which fuel oil is burned in the Company's plant for the generation of steam, and whenever the price paid by the Company for such fuel oil f.o.b. its storage tanks shall vary above said price of seventy-five cents (75¢) per barrel, then the above commodity charge shall be increased by three cents (3¢) per thousand pounds for each change of ten cents (10¢) that said fuel oil may be in excess of seventy-five cents (75¢), but in no case will the commodity charge be less than the base price of forty cents (40¢) per thousand pounds. Change to be to the nearest one cent.

In applying the above fuel clause, the customer's rate per thousand pounds of condensation shall be based on the fuel used during the monthly billing period. If both fuels were used during the month, the rate shall be based on either the oil or gas clause depending on which fuel was used in excess of the other in terms of total heat units.

SCHEDULE NO. 2 (Cont'd)

MINIMUM CHARGE:

The service charge as shown above shall be the minimum charge.

SPECIAL CONDITION:

Customers desiring service under this schedule shall contract for the same for a period of not less than 12 consecutive months.