

ORIGINAL

Decision No. 29749

BEFORE THE RAILROAD COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of  
SOUTHERN CALIFORNIA EDISON COMPANY LTD.,  
for an Order of the Railroad Commission  
of the State of California, authorizing  
agreement providing for the transfer to  
the City of Vernon of certain electrical  
distribution property of Southern Cali-  
fornia Edison Company Ltd., located  
within the City of Vernon, and the lease  
by said corporation from the City of  
Vernon of the Vernon Municipal Electric  
Plant.

Application No. 21065

Roy V. Reppy and B.F. Woodard, for Southern California  
Edison Company Ltd.  
Leonard A. Diether, for Alhambra Action League and  
Long Beach Municipal Defense League, protestants.  
Frederick W. Lake, for Howard McCurdy, protestant.

BY THE COMMISSION:

O P I N I O N

The Southern California Edison Company Ltd. asks the Commission to enter its order authorizing applicant to carry out the provisions of the agreement filed in this proceeding as Exhibit A.

Southern California Edison Company Ltd., hereafter sometimes referred to as the Edison Company, is a corporation organized under the laws of California. It does a general electric business throughout the territory in which it operates, covering all or parts of the following counties in Central and Southern California, Fresno, Kings, Tulare, Kern, Santa Barbara, Ventura, Los Angeles, Riverside, San Bernardino and Orange. Its 1936 annual report shows that during that year it sold 2,811,171,385 K.W.H. of electric energy, from the sale of which it received \$41,274,000.20. During 1935 it sold 2,517,053,690 K.W.H. of electric energy for \$37,356,221.21.

Prior to 1933 the Edison Company, so the record shows, was the sole distributor of electricity within the City of Vernon. In

1930 the City of Vernon voted \$3,900,000.00 of general municipal bonds of said City for the purpose of constructing its own electric plant and transmission and distribution system within said city. A substantial part of said bonds were sold and the proceeds used to pay the cost of constructing a Diesel electric generating plant and an electrical transmission and distribution system within the City of Vernon. The plant was put in operation in June, 1933 . Since then the City of Vernon and the Edison Company have been in competition for the electrical business in the City of Vernon. The City of Vernon placed into effect a rate schedule which was about the same as the rates charged by the Bureau of Power and Light of the City of Los Angeles. The Edison Company thereupon reduced its rates in the City of Vernon to the level of the City of Vernon rates. In spite of this reduction and the general parity of rates between the City of Vernon and the Edison Company, the City of Vernon is now doing about 60% of the electric business in said City and the Edison Company about 40%.

Exhibit No. 6 shows that for 1936 the electrical business in the City of Vernon was as follows:

|                                   |                       |
|-----------------------------------|-----------------------|
| 1. K.W.H. sales by city of Vernon | 78,508,274            |
| 2. K.W.H. sales by Edison Company | <u>45,593,814</u>     |
| Total . . . . .                   | 124,102,088           |
| 1. Revenue of City of Vernon      | \$767,956.07          |
| 2. Revenue of Edison Company      | <u>461,004.31</u>     |
| Total . . . . .                   | <u>\$1,228,960.38</u> |

The record shows that the generating capacity of the City of Vernon plant has been absorbed and that the City is considering the installation of additional generating facilities. The execution of the agreement makes the enlargement of the plant unnecessary at this time.

Under the agreement the electrical system of the City of Vernon and the distributing system of the Edison Company in the City of Vernon will be physically consolidated as an operating unit. To this end, the Edison Company transfers to the City of Vernon certain of its existing installation in the City of Vernon and agrees forthwith to do the physical work of connecting Edison Company consumers, except the Warman Steel Casting Co. and Pacific Coast Steel Corporation in the City of Vernon, with the Vernon distribution system, and agrees to construct a substation upon Vernon land adjoining Vernon's generating plant. This substation will be the means through which the combined systems can be supplied with power from Edison Company sources. By the terms of the agreement the City of Vernon leases the consolidated system to the Edison Company for a period of ten years with the option in the City of Vernon to renew the lease for successive 10-year periods. The annual rental to be paid by the Edison Company is computed on the basis of the maturing electric plant bonds of the City of Vernon, the payment of the semi-annual interest on said bonds, plus 2% of the gross receipts derived by the Edison Company from the sale of electricity within the City of Vernon to consumers on the consolidated system. The agreement contains a condition subsequent which provides that the City of Vernon can terminate said agreement at any time when the Edison Company in the City of Vernon charges rates higher than its rates on other portions of the Edison System within Los Angeles County, or higher than the rates of the Department of Water and Power of the City of Los Angeles for similar service. In the event of the termination of the agreement because of the breach of this condition, the Edison Company will receive no compensation for the properties it is now transferring to the City of Vernon. If the agreement is not renewed by the City of Vernon at the end of a 10-year period, the Edison Com-

pany is entitled to reimbursement for its expenditures on account of properties transferred to the City less accrued depreciation on such properties.

The Edison Company represents that it has at present an investment of \$1,403,000. in the City of Vernon and that of this sum \$1,027,000. remains unaffected by the agreement. The two amounts are segregated as follows:-

| I T E M                               | : Present Invest-<br>: ment as per Ex-<br>: hibit No. 1 | : Investment un-<br>: affected by agree-<br>: ment as per Ex-<br>: hibit 2. |
|---------------------------------------|---|---|
| Transmission system . . . . .         | :\$ 28,000.00   | :\$ 28,000.00   |
| Distribution system . . . . .         | : 501,000.00  | : 125,000.00  |
| Vernon substation . . . . .           | : 685,000.00  | : 685,000.00  |
| Vernon Warehouse and Garage . . . . . | : 94,000.00   | : 94,000.00   |
| Materials and supplies . . . . .      | : 95,000.00   | : 95,000.00   |
|                                       | <u>:\$ 1,403,000.00</u>                                 | <u>:\$ 1,027,000.00</u>   |

It will be observed that only the investment in the distribution system is affected, this being reduced from \$501,000.00 to \$125,000.00 or by the sum of \$376,000.00. The \$376,000.00 includes \$58,000.00 of distribution system that will be transferred to the City of Vernon and \$318,000.00 that will be removed. The property that will be removed consists of \$217,000.00 of transformers which can be used on other portions of the Edison system and \$101,000.00 represents poles and wires dismantled to avoid duplicating investment. The removal of the transformers is necessary because the City of Vernon system operates at 6900 volts and part of the Edison system at 2300 volts, and part at 16,000 volts. The transformers the Edison Company is now using in Vernon will not operate on the Vernon system.

The accrued depreciation on the \$58,000.00 of distribution system that will be transferred by the Edison Company to the City of Vernon is estimated at \$14,400. Under the agreement the Edison Com-

pany must bear the cost of consolidating the two systems. This calls for an investment estimated at \$569,178. which, added to the \$58,000. of existing property that will be transferred, makes a total of \$627,178.

The investment of the City of Vernon in its municipal electric system as of December 31, 1936 is reported at \$3,799,749.55. The accrued depreciation on the City of Vernon properties is said to be \$488,709.11. Adding the said \$627,178. to the said \$3,799,749.55 makes a total <sup>original</sup> investment of \$4,426,927.55 in property covered by the agreement.

In 1936 the Edison Company realized \$461,004.31 of revenue from the sale of electricity in the City of Vernon. In Exhibit No. 9 the Edison Company shows that if it were to lose the Vernon business its expenses during a low water year would be \$183,000. less than they were in 1936, and during a high water year \$130,000. less. The difference between the two amounts is caused by a variation in fuel costs. During a low water year the fuel costs are reported at \$77,000. and in a high water year at \$11,000. The variation in fuel costs results in a change in the federal income tax. On the basis of its 1936 Vernon business, the Edison Company, were it not operating in Vernon, would suffer a loss of \$278,000. in a low water year and \$331,000. in a high water year.

Had the agreement been in effect during 1936 the Edison Company, according to Exhibit No. 16 would have had an added net income of \$136,000. Its out-of-pocket additional cost to operate the Vernon system is reported as follows:-

|   |                            |
|---|----------------------------|
| Bond retirement . . . . .                   | \$ 98,000.00               |
| Bond interest . . . . .                     | 159,657.50                 |
| 2% of Gross Revenue(\$1,229,000.) . . . . . | 24,580.00                  |
| Additional Commercial Expense . . . . .     | 20,000.00                  |
| Maintenance of Vernon Generating Plant      | 25,000.00                  |
| Additional Operation and Maintenance:       |                            |
| Distribution system . . . . .               | 45,000.00                  |
| Taxes on leasehold . . . . .                | 25,000.00                  |
| Interest and Depreciation on New Money      |                            |
| Property (\$532,000.) . . . . .             | 46,100.00                  |
| Increment Cost of Additional Load           |                            |
| (78,500,000 kwh @ 2 mills) . . . . .        | 157,000.00                 |
| Total Additional Expense....                | <u>\$600,337.50</u>        |
| Increase in Gross Revenue from present      |                            |
| Vernon municipal system . . . . .           | 768,000.00                 |
| Less Additional Expense as above . . . . .  | <u>600,000.00</u>          |
| Net, subject to Income Tax . . . . .        | \$168,000.00               |
| Income Tax, 19% . . . . .                   | 32,000.00                  |
| Balance after taxes and all costs           | <u><u>\$136,000.00</u></u> |

The issue raised by protestants revolves around the question of the continuance of competition. As indicated, the Edison Company prior to 1933 was the sole distributor of electric energy in the City of Vernon. In that year the City placed its electric plant in operation and now has about 60% and the Edison Company 40% of the electric business in the City. The Edison rates in the City of Vernon are now the same as the City rates and are lower than in noncompetitive territory.

This Commission has no authority over the construction and operation of municipal electric plants. The rates charged by a city are not subject to review by us as are the rates of a private utility. The matter of allowing private utilities to meet the rates of publicly and privately owned plants was considered by the Commission in Decision No. 24214 dated November 9, 1951 (Vol. 36, C.R.C. 766). In that decision the Commission held that a utility had the right to meet in good faith a competitive rate without rendering itself subject to a charge of unlawful locality discrimination. Protestants do not challenge the rates now charged by Edison Company under existing conditions. But they contend that by the execution of the proposed agreement, competi-

tion between the City of Vernon and the Edison Company is terminated and therefore the principles announced in Decision No. 24214, dated November 9, 1931 no longer apply.

The City of Vernon is not selling its plant to the Edison Company. It is leasing the plant to the company for a term of 10 years subject to several conditions. One of these conditions, dictated according to the record, by the City, is that the Edison Company will not charge in Vernon rates higher than those charged by the Bureau of Power and Light of the City of Los Angeles or rates higher than it charges for similar service elsewhere in Los Angeles County. Thus, while the City transfers possession of its plant to the Edison Company, it does so only upon condition that its rate policy be maintained. The municipal plant must be kept in good operating condition and shall be operated under its own power, complete with all its auxiliaries, for a period of approximately thirty(30) minutes, at intervals of not less than, nor more than, approximately once in each thirty(30) days. While this operation will be under Edison Company management, its purpose is to assure to the City of Vernon a plant ready for operation whenever it has cause to terminate the agreement. In effect, therefore, the competition which now exists justifying the Edison Company to meet the existing rates of the City of Vernon will continue to exist after the execution of the agreement.

The agreement continues the present rate situation which would not be changed by a denial of the application. In that event the City of Vernon would continue to operate its plant and charge such rates as it chooses, while the Edison Company would no doubt, as it has in the past, meet the city rates. It appears to us that the granting of the application should not adversely affect Edison consumers outside of Vernon. The execution of the agreement obviates the enlargement of the Vernon generating plant and makes it possible

for the Edison Company to recover at least some of its investment to serve the Vernon territory. Such recovery should benefit its consumers. In any event, the Commission does not intend that consumers in non-competitive territory be burdened with any additional cost or charge for service because of lower rates in Vernon.

O R D E R

A public hearing having been held in the above entitled matter before Examiner Fankhauser and the Commission having considered the evidence submitted at such hearing, and it being of the opinion that such application should be granted as herein provided, therefore,

IT IS HEREBY ORDERED that Southern California Edison Company Ltd. be, and it is hereby, authorized to execute and carry into effect an agreement similar in terms to the agreement filed in this proceeding as Exhibit A, provided nothing contained in such agreement nor in this decision shall by the Edison Company, its successors or assigns or by any one else, be held to limit the Commission's authority from ordering and directing said Southern California Edison Company Ltd., its successors or assigns, from charging in said City of Vernon rates for electric service which are higher or lower than the rates provided for in said agreement.

DATED at San Francisco, California, this 10<sup>th</sup> day of May, 1937.

W. L. Fankhauser  
Leon A. Wiley  
Ralph W. Waberski  
Ray L. Riley  
Commissioners