Decision No. 46397

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California Electric Power Company for Increase of Rates.) Application No. 32188 (Amended)

Appearances and list of witnesses are set forth in Appendix I

O P I N I O N

California Electric Power Company filed the above-numbered application on March 7, 1951, asking authority to increase its electric rates. The application sets forth the specific rate increases proposed in the company's residential, commercial, industrial, agricultural and irrigation power, municipal and general pumping, and street lighting classifications, together with proposed increases in the rates of certain customers now being served under special contracts. Applicant estimated that if proposed rate increases were in effect for the full year 1951 its gross revenues for that year would increase by $1,230,700 on a normal year basis.

Hearings were held before Commissioner Potter and Examiner O'Brien, on June 27-29, 1951, in Riverside and on July 25-27 and August 3, 1951, in Los Angeles, the matter being submitted on August 3 on concurrent briefs to be filed within 15 days after docketing of transcript. Such briefs were filed and have been considered.

Under its original application in this proceeding, applicant proposed to increase each charge by 7.7% plus sixty-nine one-hundredths of a mill ($0.00069) per kilowatt-hour. Subsequently, applicant filed on May 28, 1951, an amended application, requesting

an increase in rates which would yield an estimated $1,520,850, based on expected operations for the 12 months ending May 31, 1952, and proposed to increase each charge by 8.1% plus ninety-four one-hundredths of a mill per kilowatt-hour. During the course of the hearings applicant further amended its request, proposing to increase each charge by 5.4% plus fifty-eight one hundredths of a mill per kilowatt-hour, which, it estimated, would result in an increase of $954,065, based on operations during the year 1951 adjusted to average conditions.

Applicant's Operations.

California Electric Power Company provides electric utility service in portions of Mono, Inyo, Kern, San Bernardino, Riverside, and Imperial Counties in California, and in Esmeralda and Nye Counties in Nevada. A wholly-owned subsidiary, Interstate Telegraph Company, provides telephone and related services in a large area of eastern California and extending into Nevada, which conforms generally to its electric service territory. In addition, the company provides cold storage facilities and manufactures and distributes ice for domestic and commercial purposes in Imperial County. The applicant controls, through stock ownership, corporations conducting electric and ice operations in Mexico.

As of December 31, 1950, the company served 56,556 electric customers in California. Sales of electricity by its California electric division accounted for approximately 81% of the company's total 1950 operating revenues.

Electric energy is obtained by the applicant from three main sources, viz.; owned production facilities, all hydro at the present time except for a steam plant at San Bernardino; allotted power from Hoover Dam; and interconnections with other operating systems. The company has under construction at Highgrove near

San Bernardino a new steam-electric generating station to consist initially of two 30,000 kilowatt units, the first of which is expected to be in operation about the middle of 1952.

Estimates

As the proceeding progressed, the test period which evolved was the estimated year 1951 adjusted to average water conditions. The respective estimates of the applicant and the Commission's staff at present rates, together with the 1950 actual results, are as follows:

Results of Operation at Present Rates

Item	1950 Actual Exhibit 18	Revised 1951 Adjusted Estimates* Applicant Exhibit 3A	Comm. Staff Exhibit 19	Applicant Exceeds Staff By
OPERATING REVENUES	$ 9,417,332	$10,897,757	$10,928,507	$ (30,750)
OPERATING EXPENSES				
Production	2,796,968	4,107,800	3,867,900	239,900
Other Oper. and Maint.	1,351,056	1,485,050	1,469,100	15,950
Admin. and General	644,923	678,500	653,900	24,600
Taxes	1,833,611	1,902,857	2,038,396	(135,539)
Depreciation Annuity	494,937	534,600	552,109	(17,509)
Amort. of Plant Acq. Adj.	-	(7,000)	-	(7,000)
Total Oper. Expenses	7,121,495	8,701,807	8,581,405	120,402
NET REVENUE	2,295,837	2,195,950	2,347,102	(151,152)
RATE BASE (Undepr.)	41,930,000	44,500,000	44,500,000	-
RATE OF RETURN	5.48%#	4.93%	5.27%	(0.34)%

(Red Figure)

* Assumes average water conditions and 47% federal income tax rate.

\# Applicant's Exhibit 3 shows 5.57% return on a somewhat smaller rate base.

The initial exhibits had contained greater differences in revenues and production expenses but by conference agreements many differences were resolved.

The difference of $30,750 in the revenue estimates for 1951 is due entirely to the fact that in the applicant's estimate the revenues from deliveries to Hawthorne Ammunition Depot and

Mineral County Power System, for use in Nevada, are based on the rates in effect prior to California Public Utilities Commission Decision No. 41798 (1948), in accordance with a recent Federal Power Commission directive, while the staff's revenues reflect the rates established by that decision and reaffirmed for those deliveries by Decision No. 45913 dated July 3, 1951.

It is apparent that the only substantial differences existing between the applicant's and the staff's revised estimates are in the production expenses. There is a relatively small difference of about $25,000 between applicant's and the staff's estimates of administrative and general expenses. In connection with this proceeding the staff requested applicant to prepare an up-to-date study to determine the portions of its general expenses properly allocable to other companies and areas. This study was made and shows that too great a portion of total general expenses was being allocated on the books to the California electric operations. The revised allocation as developed by the study is reflected in the staff's estimate. The staff's estimate of general expenses will be adopted as applicant's original estimate was not revised to reflect the results of this study.

Initially there was some difference between the applicant and the staff as to the amount of the rate base estimated for the test period. During the course of the proceeding, however, in its Exhibit No. 3-A, applicant adopted the staff's estimate of $44,500,000 which included a working cash capital allowance of $1,000,000. The latter amount was based on a study of applicant's working cash requirements giving consideration both to the relative lags in receipt of revenues and payment of expenses and to an analysis of certain balance sheet accounts.

The applicant also submitted an estimate for the year ending May 31, 1952, which indicated lower earnings than those

Substituted

shown above. The record is clear that the actual earnings of 1951 will be over $100,000 less than the estimates based on average water conditions as set forth above, largely because the secondary energy available from Hoover Dam during 1951 will be much below that of an average year.

The staff, in Exhibits Nos. 18 and 19, also showed the earnings under present rates on a depreciated rate base as follows:

Item	1950 Actual	Revised 1951* Adjusted Estimate
Operating Revenues	$ 9,417,332	$10,928,507
Total Operating Expenses	7,430,170	8,904,309
Net Revenue	1,987,162	2,024,198
Depreciated Rate Base	35,661,589	38,042,000
Rate of Return	5.57%	5.32%.

* Assumes average water conditions and 47% federal income tax rate.

Production Expenses

A considerable difference was apparent in the estimates of production expenses presented by applicant in Exhibit No. 3 and by the Commission's staff in Exhibit No. 18 for the year 1951 adjusted to normal conditions. In the latter respect applicant's estimate was normalized for hydro production in its plants and at Hoover Dam and was adjusted to give full annual effect to the Edwards Air Force Base exchange contract. The staff's estimate was adjusted to reflect normal production from the company's hydro plants, normal secondary energy available from Hoover Dam, and normal maintenance expenses in all plants. Applicant's estimate of total production and purchased power expense for its California system was $4,238,200, based upon deliveries of 762,720 megawatt-hours. The staff's estimate was $3,692,501, based upon deliveries of 732,482 megawatt-hours. During the course of the proceeding, conferences were held by engineers of the interested parties in order to clarify the details of the differences between those

production expense estimates. Subsequently, both applicant and the staff presented revised figures in which many of the minor differences were reconciled. Applicant's revised estimate was presented in Exhibit No. 3-A and the staff's revision in Exhibit No. 19. Both of the revised estimates were based upon delivery from the California system of 756,383 megawatt-hours for the adjusted year 1951. A comparison of the production estimates showing the points of difference is given in the following table:

Comparison of Energy Production Estimates
for Year 1951 Adjusted to Average Conditions

Item	Applicant Exh. No. 3-A	Commission Staff Exh. No. 19	Applicant Exceeds Staff By
Energy	Megawatt-hours		
Company Hydroelectric Plants	221,000	231,000	(10,000)
Hoover Dam Secondary Energy	42,000	54,000	(12,000)
Purchase from S.C.E. at Highgrove	280,033	251,410	28,623
Energy from All Other Sources	359,210	359,210	-
Total Energy for System	902,243	895,620	6,623
Deduct: Energy Recd. and Used in Arizona	5,000	5,000	-
Energy for California System	897,243	890,620	6,623
Production Expenses			
Company Hydro., Oper. & Misc. Exp.	$ 225,000	$ 217,900	$ 7,100
Company Hydro., Maintenance Exp.	205,000	170,000	35,000
Hoover Dam Secondary Energy Charges	18,300	23,500	(5,200)
Energy Charges for Purchases from City of Los Angeles under Original Contract	460,572	436,600	23,972
Charges for Purchases from S.C.E. at Highgrove	1,887,400	1,684,400	203,000
All other Production Expenses and Purchased Power Costs	1,365,500	1,365,500	-
Total Prod. Exp. for System	4,161,772	3,897,900	263,872
Deduct: Cost of Energy Recd. and Used in Arizona	30,000	30,000	-
Prod. Exp. for Calif. System	4,131,772	3,867,900	263,872

(Red Figure)

The revised estimates showed a difference of $7,100 in operating and miscellaneous expenses for the company's hydro plants and a difference of $35,000 in maintenance expenses for those plants. In each case the applicant's estimate was higher than that of the Commission's staff. The two estimates of hydro plant operating and miscellaneous expenses were in substantial agreement, considering the nature of the quantities. However, in the light of the experience of recent years applicant's estimate of maintenance expenses for its hydro plants, while reflecting applicant's proposed expenditures for that purpose, appears also to reflect a year of abnormally high maintenance expense. For normal maintenance during the year 1951, the staff's estimate of $170,000 will be adopted.

A difference of 10,000 megawatt-hours between the estimates of normal energy production from the company's hydro plants was occasioned by inclusion in the staff's estimate of that quantity of energy as a reasonable reflection of the company's cloud-seeding activities on the Bishop Creek watershed. Applicant's witnesses agreed that the cloud-seeding activities were beneficial but contended that the amount of benefit could not be determined and at best should be reflected only to the extent of its effect on the long-term average production from the Bishop Creek plants. Thus, applicant would reflect three years of cloud-seeding activity in a record of 25 years of production. It is apparent that reflection of the benefits of cloud seeding in the manner proposed by applicant would be inadequate. Obviously, it would be improper to spread the first three years of production from a new or improved unit, or a new plant, over 25 years of history of the original plants. Applicant points to the doubt raised by the United States

Weather Bureau regarding proof of the effects of cloud-seeding activities. It appears, however, that the Weather Bureau questions the accuracy of the results rather than the reality. The staff used 10,000 megawatt-hours as a conservative estimate appropriate for its present study, although indications were that the average annual effect of cloud seeding during the recent three-year period was between 13,000 and 18,000 megawatt-hours. For the purposes of this proceeding the reflection of 10,000 megawatt-hours of hydroelectric production, because of the company's cloud-seeding activities, is appropriate.

Applicant's estimate for normal secondary energy which it would receive from Hoover Dam was 42,000 megawatt-hours, compared with the staff's estimate of 54,000 megawatt-hours. Applicant is entitled to 5% of the secondary energy available at Hoover Dam. In support of its estimate, applicant presented copies of tabulations issued by the United States Department of the Interior, Bureau of Reclamation, Boulder Canyon Project, showing the determination of energy rates effective June 1, 1946 and June 1, 1951. The tabulation of rates effective June 1, 1946 showed an estimated annual use of energy at the secondary energy rate of 841,000 megawatt-hours during the contract years from 1941 to 1986, inclusive. The tabulation of rates effective June 1, 1951 shows the estimated annual use of energy at the secondary rate in the amount of 810,000 megawatt-hours for the contract years from 1947 to 1986, inclusive. It should be noted that both of these estimated amounts reflected equal annual division of the estimated secondary energy available after deduction of previously delivered secondary energy from the statutory 50-year total of 40,495,000 megawatt-hours, which was established for the purpose of computing energy rates by

regulations promulgated under the Boulder Canyon Project Adjustment Act. We also note that under this method of computation a series of years of high secondary output would result in a diminished estimate of secondary output for the future. The reverse effect normally occurs in the development of the expected average hydro-electric production of a plant from the history of production in past years.

The staff's estimate of 54,000 megawatt-hours was based upon an average secondary output from Hoover Dam of 1,084,000 megawatt-hours which, in turn, was derived by deduction of 4,216,000 megawatt-hours of firm energy available in the contract year of 1950-1951 from 5,300,000 megawatt-hours reported by the Bureau of Reclamation to the Federal Power Commission as its estimate of potential energy from Boulder Dam under average or median flow conditions. In a recent proceeding before this Commission, Case No. 5284, a representative of the Pacific Southwest Power Interchange Committee presented estimates of energy resources for the years 1952, 1953, and 1954, under average hydro conditions, which included the generation of 5,400,000 megawatt-hours at Hoover Dam. On the other hand, the 840,000 megawatt-hours used by applicant as average available secondary, when combined with the firm energy presently available, would indicate average total production from Hoover Dam of about 5,050,000 megawatt-hours. The figure presented in the staff's estimate is supported by the weight of evidence in this proceeding.

A difference of 6,623 megawatt-hours lies in the estimates of energy allowed for losses and company use, the applicant's estimate being higher than that of the Commission's staff. Applicant's witnesses and counsel, in brief, explained the difference as a reflection of 19,000 megawatt-hours which the

company received during the first 11 months of 1950 as a 30% allowance for losses under its contract for purchase of Owens Valley surplus energy from the City of Los Angeles. Apparently applicant has not included those allowances for losses in its reports of energy received. Applicant's witness stated that its contract with the City of Los Angeles, at least with respect to that loss allowance, was terminated December 1, 1950, and has been replaced by a contract under which it receives an allowance of 10% for losses on such deliveries. Applicant concluded that the staff's estimate was short by 12,000 megawatt-hours on losses by reflection of the 20% differential between the 1950 and 1951 contract conditions on approximately 60,000 megawatt-hours it received in 1950. However, neither the applicant nor the Commission's staff included in its energy sources for the adjusted year 1951 any energy receipts by the company from the Owens Valley plants of the City of Los Angeles. Applicant's counsel, in brief, also computes a difference with the staff of about 12,000 megawatt-hours by adding to the difference shown in the estimates, 6,623 megawatt-hours, an amount of 5,500 megawatt-hours calculated by taking 25% of the additional 22,000 megawatt-hours which the staff estimated would be available from the Bishop Creek plants and Hoover Dam. A loss ratio of 25% on the latter energy does not appear in the evidence. As to the staff's estimate, the evidence shows that losses for the adjusted year 1951 were developed from its estimate of losses for the expected year 1951 and the latter estimate reflected actual experience for the first four months of 1951.

A comparison of the energy production figures in applicant's first estimate for the adjusted year 1951, Schedule A of Exhibit No. 3, with its revised estimate for the same period, Schedule B of Exhibit No. 3-A, shows an increase of 680,000

megawatt-hours under the revised basis for losses on the California system excluding the export business, although at the same time, applicant revised its estimate of California deliveries excluding the export business downward by 6,337 megawatt-hours and eliminated as receipts at Hoover Dam some 60,000 megawatt-hours of energy as replacement for steam energy generated by the City of Los Angeles. Applicant's witness allowed 12.5% loss in incremental energy transmitted to load center from Hoover Dam and its northern hydro sources, and 5% on energy transmitted from Seal Beach.

Another indication of an appropriate allowance for losses may be developed from the allowance included in applicant's original estimates as presented in Exhibit No. 3, excluding its export business. That allowance should be adjusted to the conditions of applicant's Exhibit No. 3-A by reflection of 12.5% loss on the difference in energy received at Hoover Dam, both as to applicant's firm energy and that received through its supplementary contract with the City of Los Angeles, and an adjustment for 5% loss on additional energy from Seal Beach. The resulting losses thus obtained should then be adjusted to the level of deliveries used in applicant's Exhibit No. 3-A and allowance made for losses on export business. A further allowance of 12.5% loss should be made on the incremental hydro energy as a result of cloud seeding and use of the higher estimate of Hoover Dam secondary energy. This procedure results in adjusted losses of about 137,000 megawatt-hours, which will be used for the purposes of this proceeding in view of its comparison with the estimates presented by applicant and the Commission's staff.

The difference between the applicant's and the staff's estimates of energy purchased at Highgrove from the Southern California Edison Company is the result of the differences in

energy production and loss estimates which have been discussed above. Both applicant and the staff reflected in purchases at Highgrove sufficient energy to make up the estimated requirements after determination of the estimated energy available from other sources. We shall follow the same procedure in our consideration of this question.

During the closing days of the hearing, a question arose as to the costs included in applicant's estimates of production expenses for energy purchased from the City of Los Angeles. Applicant's revised estimate included the purchase of 100,000 megawatt-hours at an energy charge of $436,600. Under its estimate certain of that energy was to be generated from gas fuel in the City's steam plants. However, upon inquiry at the time of the hearings, applicant was advised that the City changed its procedure for billing calculations and, in all probability, the energy charges for energy supplied to applicant would no longer reflect gas fuel. Accordingly, applicant revised its estimate of energy charge to $460,572. It is apparent that the staff's estimate of $436,600 for like energy should be adjusted accordingly.

As a result of the foregoing adjustments, together with production expenses upon which the applicant's estimate and the staff's estimate were in agreement, an allowance of $3,920,000 will be made for production expenses during the year 1951 adjusted to normal conditions for the purposes of this proceeding.

Taxes

The company and staff estimates of taxes other than on income differ by only about $19,000. This difference is almost entirely in the forecasts of ad valorem taxes. We will adopt for taxes, other than on income, an average amount of $1,060,000.

There was no controversy as to the basis of computing income taxes. The applicant made computations at both 47% and 50% federal income tax rates; the staff only at the then effective 47% rate. Since the submission of this application, legislation has been enacted increasing the federal income tax rate from 47% to 52% and repealing the federal electric energy tax. The taxes adopted herein reflect these changes on a full year basis, using the adopted revenue and expense figures.

Conclusions as to Operating Results for Test Year

A summary of the operating results for the test year of 1951 estimated under average water conditions, adopted for the purpose of testing the reasonableness of future rates, is as follows:

Item	5% Sinking Fund Method	5% Modified S.F. Method
Operating Revenues	$10,928,507	$10,928,507
Production Expenses	3,920,000	3,920,000
Other Operating Expenses	2,124,000	2,124,000
Depreciation	552,100	875,000
Taxes*	2,041,137	2,041,137
Total Operating Expense	8,637,237	8,960,137
Net Revenue	2,291,270	1,968,370
Rate Base	44,500,000	38,042,000
Rate of Return	5.15%	5.17%

* Reflects 52% federal income tax and no electric energy tax.

It is clear that an increase in rates and charges is justified. Some questions were raised as to the effect of the proposed new steam electric generating plant at San Bernardino. It is estimated that the first unit of 30,000 kilowatts will be in operation by the middle of 1952 and additional units at later dates. The actual results will be dependent upon several factors and are too uncertain to consider definitely at this time.

Conclusion as to Earnings

Applicant's request for increases in rates is predicated, among other things, on a return of 6% applied to an undepreciated rate base.

Counsel for the protestant cement companies apparently do not take issue with the rate of return of 5.7% found reasonable by the Commission in 1948. They request, in general, that the application be denied so far as rates charged to them are concerned and request that applicant be required to serve them at rates comparable with those charged by Southern California Edison Company for service to other cement companies.

Counsel for the executive agencies of the federal government suggests, in view of applicant's evidence that in 1950 the actual earnings of the electric utility properties in California were 5.57%, there is a strong inference of inadequate earnings or undistributed profits in other divisions of applicant's operations.

Finally, counsel for the Director of Price Stabilization urges that the application be denied and states that "the increase, if granted, would constitute a long forward step in the upward spiral of inflation, contributing its full share to the run-away, uncontrollable inflation." He states that increases in rates should be permitted by those exercising jurisdiction over them only to the extent necessary to enable the utility to earn a sufficient return to meet the demands of the public for its service, and states that applicant has not demonstrated its need for a rate increase under this standard.

In support of its request, applicant presented testimony showing, among other things, that it is faced with a continuing program of plant expansion and with the necessity of raising funds to meet it. In Exhibit No. 8, it reports its actual construction

expenditures for the last 10 years in its California electric division in the aggregate amount of $22,907,809, and its estimated expenditures in the same division for the three years 1951 to 1953, inclusive, in the amount of $23,864,700, a substantial portion of which must be provided through the issue of securities.

A witness called on behalf of applicant testified that, in his opinion, without the rate increases here requested, applicant will be unable to finance its construction program, although in this connection it is noted that applicant has arranged for a line of credit which should provide, temporarily at least, the funds necessary for its 1952 construction with no permanent financing being required until the early part of 1953. The witness stated, however, that applicant is faced with the possibility of failure in 1951 of earning the 60-cent dividend it has been paying on its common stock and that such a failure, in his opinion, would interfere with the sale of stock at a later date. In his testimony and in his Exhibit No. 12, he sets forth certain comparative data showing that applicant's common stock is selling on the market on a higher yield basis than the stock of other electric utilities and that, in general, applicant has paid out a higher proportion of its net earnings. The witness concluded that the higher yield reflected the market appraisal of the risk attached to applicant's stock and indicated that the present earnings are considered inadequate to protect the present dividends.

The record shows applicant has issued bonds, debentures, and shares of preferred and common stock, and has used earnings from operations in financing the cost of its assets. Exhibit No. 18 shows applicant's capital structure at the close of 1950 to consist of a long-term debt in the amount of 54.30% of the total, preferred stock 23.54%, and equity capital 22.16%. The exhibit shows the

effective interest rate associated with the long-term debt, preferred stock, and those reserves which are being accumulated on the sinking fund basis, at 3.91%. It further sets forth that the company during the last five years had paid dividends on its shares of common stock in the amount of 60 cents annually, and that its earnings available for such dividends have ranged from a high of 90 cents in 1949 to a low of 61 cents in 1950. Applicant reports earnings for the first three months of 1951 at 11 cents a share as compared with 21 cents a share for the corresponding period of 1950.

The reference made to applicant's capital structure applies to its properties and operations as a whole. Its securities represent not only its investment in its California electric division but in its electric properties outside California, its other utility properties, its nonoperative properties, and in securities of its subsidiary companies. According to its July 31, 1951, balance sheet, its investment in its California electric division aggregated $48,181,549, in its other electric division $1,631,966, in its ice and storage division $4,035,807, in nonoperative properties $79,128, and in investment and fund accounts $6,145,339. In arriving at the conclusions set forth in this decision, consideration is given only to the operating revenues, expenses, and rate base pertaining to its electric operations in California. The record does not disclose the results from applicant's operation of its other properties. The question presented in this proceeding is the determination of the fair return to be allowed applicant in the conduct of its California electric operations.

In 1948, the Commission found a return of 5.7%, related to an undepreciated rate base, was fair and reasonable at that time. However, it is clear that a return which is fair and reasonable in

one year may not be fair and reasonable in a succeeding year or years, and in weighing the matter consideration must be given to several factors. The record does not show prevailing conditions in 1948. It does show, however, that in 1951 there has been an increase in current interest levels over those obtaining in 1950. Exhibit No. 37 presented on behalf of some of the protestants shows, among other things, that the ranges in interest rates of utility bonds increased during 1951 as compared with 1950, and that recent averages, although they may have declined somewhat, are still in excess of those which prevailed during 1950. Finally, it appears that applicant has not earned the return found reasonable in the earlier rate proceeding.

The record contains evidence relating to the growth characteristics of this company. Exhibit No. 18 shows that in its California electric division its sales in kilowatt-hours increased from 270.8 million in 1944 to 546.7 million in 1950, its average number of active accounts from 29,314 to 54,416 during the same period and its kilowatt-hour sales per average account from 9,238 to 10,046. Its reported investment in electric plant in California increased from $26,354,907 at the close of 1944 to $41,580,902 at the close of 1950, and it appears that its period of heaviest construction lies ahead. This company's continuing problem is to obtain the funds to meet the demands of its present and future customers for service and it is clear that it will have need for additional revenues if it is to realize the net earnings necessary to attract capital to finance its requirements.

It is noted that unit costs of labor and materials have increased, and in view of applicant's substantial construction program for the immediate future some recognition should be given to the declining return with which applicant no doubt will be

faced. Taking into consideration federal income taxes at the recently adopted 52% rate and the repeal of the federal electric energy tax, it is concluded that additional gross revenues of $695,000 will be required by applicant in its California electric division to place it in a position where it can meet the requirements of its service area. We hereby find that such additional gross revenues of $695,000 will yield applicant a return of approximately 6% on a depreciated rate base,1/ which return hereby is found to be fair and reasonable.

In arriving at this conclusion we are not unmindful of the position taken by counsel for the Director of Price Stabilization. However, applicant, as well as other utilities, is faced with increasing costs of taxes, labor and material, and its rates for service cannot remain unchanged in view of its own increased costs. The increase herein granted in our opinion is the minimum one which will permit applicant to proceed with its program of expansion to meet the reasonable demands of customers in its area for additional service.

Cost of Service Study

Considerable controversy developed during the proceedings and criticisms as to the lack of cost of service studies were set forth at length in the briefs of protestants, Riverside Cement Company, Southwestern Portland Cement Company, West End Chemical Company, California Manufacturers Association, and the United States Navy Department.

1/ Applied to an undepreciated rate base, the additional revenues will yield a return equivalent to approximately 5.86%.

The record contains the results of complete cost of service studies as to the over-all operations of the California electric division of applicant, both by applicant and the Commission staff. The complaint of protestants is that these studies are not subdivided into more detailed studies as to cost to serve certain classifications of customers or certain areas. Upon request of protestant cement companies, applicant did produce and submit to all parties a cost of service allocation study made by one of its engineers to determine the cost of production and transmission of electrical energy on its system. The protestants did not see fit to request that this study be offered in evidence.

Other protests were directed against applicant's request not to increase rates in the San Bernardino city area, which is competitive with the Southern California Edison Company.

The record is sufficiently clear to justify increases in rates to the extent heretofore indicated in this opinion, realizing that actual costs of service in the present year are substantially in excess of the average costs as estimated by both applicant and the staff, and that differing conditions may prevail upon completion of applicant's steam-electric generating plant. In order that additional and more complete data may be available, however, to the parties and to the Commission, applicant will be directed to prepare two cost of service allocation studies, one as to classes of service and the other as to areas. Applicant will be expected to outline the basis of allocation it proposes for such studies, and serve copies of such basis upon the parties hereto and file a copy thereof together with proof of service upon the parties with the Commission not later than December 31, 1951. In ruling on the methods to be followed, the Commission will give consideration to protests and suggestions received not later than January 31, 1952.

The results of the company's studies will be filed with the parties and the Commission not later than April 30, 1952, covering the allocation of costs for the year 1951 and earnings as related to the revenues which would have been received had the rates prescribed herein been effective for the full year 1951. However, the allocations will be based upon assumption of average water conditions, and will use the return as specified herein.

Distribution of Increase Among Rates and Charges

A considerable portion of the record in this proceeding concerns the equitable distribution of such increases as may be found to be necessary. Applicant proposed to apply a portion of the increase in gross revenues as a percentage increase on all present charges and to apply the remainder of the gross revenue increase, which applicant estimated would reflect recent increases in the cost of energy, as an average addition to the charge per kilowatt-hour. Protestants pointed out that such a procedure would result in a greater percentage increase on the bills of large users whose present average rate per kilowatt-hour is relatively low. Those protestants, who were consumers of large quantities of energy, emphasized the equalization of percentage increases for all charges and all customers. However, the record shows that, under applicant's proposal, although the percentage increase for a residential customer using 1,000 kilowatt-hours per month on the present Schedule D-5 would be about 7.8% as compared with a percentage increase of about 12.5% for a customer using 4,000 kilowatts at 80% load factor, the increase in cents per kilowatt-hour for the domestic customer is at least twice the increase in cents per kilowatt-hour for the industrial customer. If the increase authorized herein were distributed as an equal percentage increase to all

charges and all customers, the percentage would be about 6.4%. On the other hand, the many customers who use relatively small amounts of energy might well urge a uniform distribution of the increase in cents per kilowatt-hour of energy sold. If such a distribution were made, the increase per kilowatt-hour would be about one-tenth of a cent per kilowatt-hour.

The record shows that recent changes have had a material effect on applicant's sources of power and energy and applicant's cost of energy at production. A number of these changes are reflected directly in costs of energy, without influence upon the cost of system capacity. It is appropriate that such changes in energy cost be reflected in an adjustment of all charges per unit of energy. A comparison of applicant's energy production schedule and costs as recorded for 1950 with the test estimates for 1951 under normal or average conditions shows: (a) a decline of 10,338 megawatt-hours of firm energy from the Boulder Canyon Project, (b) the elimination of 42,514 megawatt-hours of surplus energy from the Owens Valley plants of the City of Los Angeles, (c) an increase of 5,535 megawatt-hours in energy from the company's hydroelectric plants on an average-year basis, (d) an increase of 14,150 megawatt-hours of secondary energy from the Boulder Canyon Project on an average-year basis, and (e) an increase of 34,000 megawatt-hours in supplemental energy purchased from the City of Los Angeles. These changes, with several other minor changes and the corresponding changes in cost, together with a change in the energy charge portion of the cost of 100,000 megawatt-hours purchased from the City of Los Angeles at Seal Beach, would result in an adjustment of approximately $166,000 additional cost and nearly 3,000 megawatt-hours less energy than was recorded for the year 1950. Such an

adjustment to the 1950 figures would raise the average cost per kilowatt-hour at production from 3.77 mills to 4.01 mills. Expansion of this quantity to approximately the 1951 level of business could be accomplished through an adjustment to reflect additional purchase from Southern California Edison Company at Highgrove under the terminal rate of 4.0 mills per kilowatt-hour, which is provided in Edison's schedule, but the result does not alter the average cost at production of 4.01 mills per kilowatt-hour previously quoted.

It should be noted that the energy costs reflected in the foregoing adjustments apply to energy at production, regardless of the time of receipt, and do not reflect charges which are assignable to the additional capacity made necessary by the growth of load between 1950 and 1951. Thus, it is apparent that an increase of 0.24 mills per kilowatt-hour at production has occurred in energy costs. This cost will be reflected in the kilowatt-hour component of the rate structure. The remainder of the authorized increase in rates will be reflected as a percentage increase on all charges under present rates. On a unit basis, the calculations necessary to develop new rates are, first, each demand charge, minimum charge, and the rate for each energy block will be increased by 4.77% and, second, to the figure thus obtained for the rate of each energy block will be added twenty-four hundredths of a mill ($0.00024) per kilowatt-hour. All increased rates and charges are to be rounded in the final computation of each item, separately, to the nearest cent in the case of rates and charges quoted in dollars, and to the nearest hundredth of a cent in the case of rates and charges quoted in cents. The correspondingly increased rates for Schedules DWH, LS-1, and LS-2 are attached hereto as Exhibit A.

Although the foregoing computation of increase is based upon the estimate of applicant's total sales from its California division, excluding deliveries on exchange to Edwards Air Force Base, applicant may not be able to effect such increases on deliveries in the City of San Bernardino under Schedules D-1, L-1, H-1, P-1-C, and P-1-D, or on the deliveries to Mineral County Power System and the U. S. Naval Ammunition Depot at Hawthorne. If applicant is unable to effect increases in those schedules and for those customers, it is estimated that the increase in revenues it will receive under a full year's application of the new rates, based on 1951 conditions, will fall short of $695,000 by about $50,000.

During the hearings question was raised regarding the franchises and certificates held by Southern California Edison Company for operations in the City of San Bernardino and in the County of San Bernardino. This Commission, by Decision No. 27881, dated April 8, 1935, in Application No. 19786, granted a certificate of public convenience and necessity authorizing Edison to exercise the rights and privileges of a franchise granted by the City of San Bernardino under Ordinance No. 1537, subject only to the provision that the Commission might thereafter revoke or limit said authority as to territory not served by Edison at the time of revocation or limitation. No such revocation or limitation has been ordered. Said ordinance provided for the construction, operation, and maintenance of an electric system and the transmission and distribution of electricity for all purposes other than lighting throughout the City of San Bernardino. It appears that Edison has a franchise for the distribution of electricity for lighting throughout the city, derived under Section 19 of Article XI of the Constitution of California (as said section existed prior to its amendment on October 10, 1911). By Decision No. 34741 dated

November 4, 1941, in Application No. 23635, this Commission granted a similar certificate of public convenience and necessity authorizing Edison to exercise the rights and privileges of a franchise, granted by Ordinance No. 482 of the County of San Bernardino, for operation of an electric system throughout the county. The certificate respecting the County Ordinance No. 482, however, was predicated upon a stipulation by Edison that it would not exercise said franchise for the purpose of competing with existing utilities, and contained the following provision, among others:

> "2. That, except upon further certificate of this Commission first obtained, applicant shall not exercise such franchise for the purpose of supplying electricity within those parts or portions of said county now being served with electricity by any other public utility."

No further certificate has been issued to Southern California Edison Company respecting operations in the County of San Bernardino. Counsel for several of the protestants, including the City of Corona, Temescal Water Company and the Navy Department, have argued in briefs that the application of increased rates to some customers, in the absence of an increase to customers in the city of San Bernardino, would create objectionable discrimination through causing customers outside of said city to subsidize the cost of service to customers within the city. It is clear from the record that applicant believes the threat of competition by Southern California Edison Company is much greater within the city of San Bernardino than elsewhere in its service area. Whether or not this be so, the additional gross revenues required for applicant's California electric division have been distributed among the rates and charges for all sales by that division including the sales within the city of San Bernardino. It follows that applicant's other customers will experience no burden through allocation of the increases

herein authorized even though applicant may find it necessary to retain its present rates and charges within the city of San Bernardino to meet the competition of Edison. On many occasions this Commission has recognized the effect of competition in establishing the levels of rates, stating in each case that the maintenance of competitive rate levels for some customers would not be permitted to burden other customers. Each such situation must be considered in the light of the peculiar conditions then existing. In any such case the fundamental question is whether or not the continuance or the discontinuance of service to customers in the competitive area will support or burden the company's operations and its service to customers in other areas. In view of the average rate received by applicant from its service under present tariffs within the city of San Bernardino, it does not appear that the continued rendition of that service, whether at present rates or at present rates with the increases authorized herein, will be a burden to applicant's other operations and to its other customers.

The Temescal Water Company urged preferential treatment under Schedule PA-2 on the grounds that said schedule applies solely to its operations, that it is a nonprofit corporation and its problems are directly the problems of individual citrus growers in the area. It further urged recognition of increased pumping and lowered water tables now experienced as the result of a series of dry years. The record shows, however, that Temescal Water Company obtains a considerable portion of its water from surface runoff during average years. In establishing its operations it must have anticipated that not all years would be average and that provision would have to be made for the cost of pumping water from wells when surface runoff is low. Regarding Temescal's claim that its costs

are directly the costs of the individual citrus growers who own the company, we find nothing unusual in the fact that the increased costs of utility operations must eventually fall upon individual customers. Schedule PA-2 is applicable to agricultural power irrigation service but was closed to new installations after July 31, 1948, in accordance with this Commission's Decision No. 41798. Applicant reported an average of 16 active accounts served under that schedule during 1950. Evidence presented by Temescal's witnesses shows that Temescal paid a very low average rate under Schedule PA-2 during the 1950-1951 season. It is apparent that application to Schedule PA-2 of the increases authorized herein will not create an undue burden upon Temescal Water Company or its owners.

Depreciation

An agreement to adopt the remaining life method of computing depreciation accruals effective January 1, 1952, was reached, concurred in by all the parties, and submitted for the consideration of the Commission. This agreement, attached hereto as Exhibit B, is approved by the Commission, and the order will specify its adoption.

O R D E R

California Electric Power Company having applied to this Commission for an order authorizing increases in electric rates and charges, public hearings having been held, the matter having been submitted and being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified; therefore,

IT IS HEREBY ORDERED that:

1. Applicant is authorized to file within thirty (30) days after the effective date of this order, and in conformity with General Order No. 96, and to make effective after not less than three (3) days' notice to this Commission and to the public for service rendered on and after November 30, 1951, revised Schedules LS-1, LS-3 and DWH, with rates therein as shown in Exhibit A attached hereto and, together therewith, revised schedules for all other rates and charges stated in its electric tariffs, including the rates for each energy block, each demand charge, and each minimum charge, computed as follows:

   a. Each demand charge and each minimum charge of applicant's present schedules multiplied by 1.0477;

   b. The rate for each energy block, first multiplied by 1.0477 and, secondly, by adding to the figure thus obtained twenty-four hundredths of a mill ($0.00024) per kwhr; and

   c. In the final computation of each item separately, rounding the rates and charges thus computed to the nearest one cent in the case of rates and to the nearest quoted in dollars, and to the nearest one-hundredth of a cent in the case of rates and charges quoted in cents.

2. If applicant decides not to make such revisions in its Schedules D-1, L-1, H-1, P-1-C and P-1-D, which are presently applicable within the city limits of San Bernardino, it shall retain in effect the present rates and charges of said tariffs.

Upon making effective revised rates and charges under its Schedules P-2 and P-3, applicant shall make effective, for service rendered on and after the d charges of said schedules, the revised rates effective date of said schedules under its contracts h Kaiser Company, Inc., dated October 1, 1947; strial Electrica Mexicana, S. A., dated March 1, the United States of America, Edwards Air Base, dated June 14, 1950, and Naval Ordnance ation, dated January 1, 1945; and applicant y such rates and charges of its revised P-2 effective on and after the effective id revised schedule for service rendered ed States Navy at Mill Creek for consumpNaval Ammunition Depot at Hawthorne, Letter of Intent dated June 29, 1949.

CORRECTION

THIS DOCUMENT

HAS BEEN REPHOTOGRAPHED

TO ASSURE LEGIBILITY

IT IS HEREBY ORDERED that:

1. Applicant is authorized to file within thirty (30) days after the effective date of this order, and in conformity with General Order No. 96, and to make effective after not less than three (3) days' notice to this Commission and to the public for service rendered on and after November 30, 1951, revised Schedules LS-1, LS-3 and DWH, with rates therein as shown in Exhibit A attached hereto and, together therewith, revised schedules for all other rates and charges stated in its electric tariffs, including the rates for each energy block, each demand charge, and each minimum charge, computed as follows:

   a. Each demand charge and each minimum charge of applicant's present schedules multiplied by 1.0477;

   b. The rate for each energy block, first multiplied by 1.0477 and, secondly, by adding to the figure thus obtained twenty-four hundredths of a mill ($0.00024) per kwhr; and

   c. In the final computation of each item separately, rounding the rates and charges thus computed to the nearest one cent in the case of rates and charges quoted in dollars, and to the nearest one-hundredth of a cent in the case of rates and charges quoted in cents.

2. If applicant decides not to make such revisions in its Schedules D-1, L-1, H-1, P-1-C and P-1-D, which are presently applicable within the city limits of San Bernardino, it shall retain in effect the present rates and charges of said tariffs.

3. Upon making effective revised rates and charges under its Schedules P-2 and P-3, applicant shall make effective, for service rendered on and after the effective date of said schedules, the revised rates and charges of said schedules under its contracts with Kaiser Company, Inc., dated October 1, 1947; Industrial Electrica Mexicana, S. A., dated March 1, 1950; the United States of America , Edwards Air Force Base, dated June 14, 1950, and Naval Ordnance Test Station, dated January 1, 1945; and applicant may apply such rates and charges of its revised Schedule P-2 effective on and after the effective date of said revised schedule for service rendered to the United States Navy at Mill Creek for consumption by the Naval Ammunition Depot at Hawthorne, Nevada, under Letter of Intent dated June 29, 1949.

4. Applicant shall prepare two (2) cost of service allocation studies, one as to classes of service and the others as to areas, shall serve copies of an outline of the basis of its proposed allocation upon the parties hereto and the Commission not later than December 31, 1951, and, as amended by rulings on protests or criticisms received on or before January 31, 1952, applicant shall file the results of said studies with the parties and the Commission not later than April 30, 1952.

5. The agreement relative to depreciation practices, copy of which is attached hereto as Exhibit B, is hereby approved and applicant shall take the necessary steps to conform therewith.

The effective date of this order shall be twenty (20) days after the date hereof.

Dated at San Francisco, California, this 6th day of November, 1951.

President.

Commissioners.

A-32188*

APPENDIX I

LIST OF APPEARANCES

For Applicant: Henry W. Coil, Albert Cage, Donald J. Carman and Kenneth M. Lemon.

Protestants: Riverside Cement Company by L. M. Wright of O'Melveny & Myers; Southwestern Portland Cement Company, by Donald H. Ford and Wayne Knight of Overton, Lyman, Prince & Vermille; West End Chemical Company, by Geo. D. Rives and Alfred Hampson, Jr., of Brobeck, Phleger and Harrison; Temescal Water Company, by Clayson and Stark; City of Palm Springs, by Russell W. Rink; City of Blythe, by Richard H. Rive, Henry M. Beard, J. E. Sullivan, and R. H. Kice; City of Banning, by F. S. Wing; City of Corona, by John T. Ganahl.

Interested Parties: California Farm Bureau Federation, by J. J. Deuel and Edson Abel; United States Government: Office of Price Stabilization, by Bryce Rea, Jr. and Emil J. Broz, for the Director of Price Stabilization; Department of Executive Agencies, U.S. Government, by Geo. Spiegel, for Charles Goodwin, Counsel, Bureau of Yards and Docks; California Manufacturers Association, by Homer R. Ross; Riverside County, by Leo A. Deegan; Southern California Edison Company, by Rollin E. Woodbury; Mutual Water Company, by Leo Zeitz; Perris Valley Chamber of Commerce by B. C. Leech; Grand Avenue Property Owners Group, by R. D. Baumgardner; Sunnymead Chamber of Commerce, by Alice M. Weber; Lytle Creek Water Imp. Company, by H. M. Boyd.

For Commission Staff: Hal F. Wiggins, E. F. McNaughton, and F. Coleman.

LIST OF WITNESSES

Evidence was presented on behalf of applicant by: Albert Cage (history, character and scope of operations), Howard Boylan (results of operation), J. A. Talley (results of operation, construction expenditures, cash requirements), G. C. Delvaille (electric rates), Willis T. Johnson (power production), A. B. West (financing, earnings, system growth), D. B. Wheelock (revenue estimates), Edgar Sheppeard (administrative and general expenses).

Evidence was presented on behalf of the protestants and interested parties by: Dr. Allen Ferguson (price stabilization program), J. G. Jameson (agricultural pumping costs), Henry D. Hellmers (electric operation and costs, West End Chemical Company), Edwin Fleischmann (comparison of residential rates), Max A. Koffman (competition and electric costs in the cement industry), Frank T. Sheets (electric costs vs. cement prices), Olin C. Halstead (power costs, Southwestern Portland Cement Company), John C. Allen (competition in the cement industry), L. C. Smull (comparison of power costs, Riverside Cement Company), Clarence A. Winder (cost of financing, results of operation), C. M. Brewer (comparison of electric rates), Geo. Spiegel (by stipulation - electric power purchases by Department of Defense), Russell W. Rink (utility rates vs. inflation), Carl C. Ernst (costs of steampower).

Evidence was presented on behalf of the Commission's staff by: Robert W. Beardslee (history, present operations, administrative and general expenses, summary of earnings), Theodore Stein (balance sheet, income statement and book depreciation reserve), L. S. Patterson (operating revenues, production, transmission, distribution, customers' accounting and collecting, sales promotion, and depreciation expenses), D. C. Neill (taxes and working cash capital), J. W. Pringle (fixed capital and rate base), and Lewis R. Knerr (results of operation).

LIST OF WITNESSES
(Continued)

Evidence was presented on behalf of the protestants and interested parties by: Dr. Allen Ferguson (price stabilization program), J. G. Jameson (agricultural pumping costs), Henry D. Hellmers (electric operation and costs, West End Chemical Company), Edwin Fleischmann (comparison of residential rates), Max A. Koffman (competition and electric costs in the cement industry), Frank T. Sheets (electric costs vs. cement prices), Olin C. Halstead (power costs, Southwestern Portland Cement Company), John C. Allen (competition in the cement industry), L. C. Smull (comparison of power costs, Riverside Cement Company), Clarence A. Winder (cost of financing, results of operation), C. M. Brewer (comparison of electric rates), Geo. Spiegel (by stipulation - electric power purchases by Department of Defense), Russell W. Rink (utility rates vs. inflation), Carl C. Ernst (costs of steampower).

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EXHIBIT A
Page 1 of 2

The presently effective Schedules LS-1, LS-3 and DWH are changed as follows and remain unchanged by this order in all other respects:

SCHEDULE LS-1

RATE		Rate Per Lamp Per Bimonthly Billing Period	
Lamp Rating		All Night Service	Midnight Service
Series Lamps			
600	Lumens	$ 2.56	$ 2.37
800	"	3.09	2.88
1,000	"	3.36	3.13
2,500	"	5.16	4.54
4,000	"	6.28	5.34
6,000	"	7.80	6.31
10,000	"	10.77	8.32
15,000	"	14.15	11.27
25,000	"	21.15	16.13
Multiple Lamps			
Standard Lamps		Group Replacement Street Lamps	
40	Watts	-	2.42	2.22
60	"	-	3.11	2.88
75	"	1,000 Lumens	3.55	3.32
100	"	1,400 "	4.29	3.82
150	"	2,500 "	5.18	4.52
200	"	3,400 "	5.90	5.02
-		4,000 "	6.32	5.36
300	"	-	7.38	5.97
-		6,000 "	7.80	6.31
500	"	-	10.24	7.86
-		10,000 "	10.77	8.32
750	"	-	13.85	10.22
-		15,000 "	14.15	11.27
1,000	"	-	16.92	12.44

MINIMUM CHARGE

$5.25 per bimonthly billing period for each timing point where switching is controlled by either mechanical or manual control.

SCHEDULE LS-3

RATE		Rate Per Lamp Per Bimonthly Billing Period
Lamp and Rating		All Night Service
Schedule Code		
470	Sodium-Vapor, 10,000 Lumens	$ 12.62
476	Mercury-Vapor, 400 Watts	14.73

EXHIBIT A
Page 2 of 2

SCHEDULE DWH

RATE

Schedule Code	Maximum Number Residents in House	Capacity of Tank in Gallons	Capacity of Heater-Watts	Bimonthly Billing Charge
602	2	18	1,500	$ 5.32
602	2	24	1,000	5.32
603	3	30	1,000	6.41
604	4	30	1,500	7.48
605	5	40	1,500	8.55
606	6	40	2,000	10.67
607	7	52	2,000	12.81
608	8	52	2,500	13.88
609	9	66	2,500	17.08
600	10	66	3,000	18.15

MINIMUM CHARGE

Where the total period for which electric service issued under this schedule is less than two months on a bimonthly billing basis, the charge will be prorated on the basis of the number of days in the period in question to the total number of days in an average bimonthly billing period, which will be taken as 60 days, but in no case will the charge so computed be less than $1.05.

SPECIAL CONDITIONS

Change of Heating Element Capacity:
Where the hot water requirements of a customer already taking service under this schedule are increased or decreased, the hot water capacity of the water heater installation may be modified by changing the wattage of the heating element in accordance with the table below:

Schedule Code	Capacity of Tank in Gallons	Maximum Number Residents in House	Capacity of Heater-Watts	Bimonthly Billing Charge
505	30	5	2,000	$ 8.55
506	30	6	2,500	10.67
503	40	3	750	6.41
504	40	4	1,000	7.48
507	40	7	2,500	12.81
504	52	4	750	7.48
505	52	5	1,000	8.55
506	52	6	1,500	10.67
509	52	9	3,000	17.08
505	66	5	750	8.55
506	66	6	1,000	10.67
507	66	7	1,500	12.81
508	66	8	2,000	13.88

The above table is not applicable to new water heater installations in premises hitherto unserved under this schedule.

EXHIBIT B

MEMORANDUM OF UNDERSTANDING
RELATIVE TO DEPRECIATION PRACTICES
CALIFORNIA ELECTRIC POWER COMPANY

1. The depreciation reserve as of December 31, 1951, will come under the "remaining life" accrual method. Under this plan, by means of periodic reviews by the company, the annual, depreciation accrual will be determined by the gross depreciable plant per books less the then existing depreciation reserve related to the estimated equivalent remaining life of said depreciable plant and estimated gross salvage, less cost of removal.

2. Under the foregoing plan no adjustments for either deficient or excessive depreciation reserve balances will be made in the future through surplus, even though the accrual method initially adopted be changed.

3. The company will maintain within its organization a continuing staff review of depreciation charges. This staff will have the duty of: (a) presenting by December 1, each year, recommendations for proposed basic depreciation rates for the ensuing year for Management approval and Commission review, the first report to be filed December 1, 1951; and (b) making the adjustment necessary as to composite rates for December accounts of each current year, based on the basic lives approved the preceding year, with the objective that the accrual for the year will be properly weighted as to actual plant changes during the year.

Dated at Los Angeles, California, on August 3, 1951.