

ORIGINALDecision No. 49398

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application)	
of COAST COUNTIES GAS AND ELECTRIC)	
COMPANY, a corporation, for author-)	Application No. 34393
ity to increase rates applicable)	(as amended)
to electric service furnished within)	
the State of California.)	

For Applicant: W. E. Johns and Pillsbury,
Madison and Sutro by Noel Dyer.
 For Interested Party: California Farm
Bureau Federation by Edson Abel.
 For Commission Staff: Harold J. McCarthy,
J. F. Donovan and Charles W. Mors.

O P I N I O N

Coast Counties Gas and Electric Company, a California corporation operating electric, gas and water systems in central and northern California, by this application, filed May 26, 1953 and as amended August 25 and October 26, 1953, seeks an order of this Commission authorizing an increase in electric rates in order to provide additional gross revenue in the approximate amount of \$200,500 annually based upon the level of business for the twelve months ended June 30, 1953.

A public hearing in the matter was held before Commissioner Craemer and Examiner Emerson on November 16, 1953 in San Francisco. No person appeared in opposition to applicant's rate increase proposal.

Applicant's Position and Request

Applicant was before this Commission in 1952 seeking electric rate increases and, by Decision No. 47963 in Application No. 33014, was authorized to file new rates designed to produce a rate of return of 6.25 per cent on a depreciated rate base of \$9,742,000 for a past test period. Such rates were expected to

yield a future rate of return of 5.75 per cent. Said rates of return were found to be reasonable.

Since the date of the aforesaid decision, applicant's investment in plant has increased materially. Substantial increases in payroll expenses have also occurred. Growth of customers and customer usage, as reflected by increases in revenues, has not kept pace, hence applicant finds that its rate of return has declined markedly. According to its books, the rate of return realized in the first twelve months following the test period used in the last rate proceeding amounted only to 5.28 per cent. It now estimates that, if present rates are continued, electric operations in the year 1954 would produce no more than a 4.95 per cent rate of return. It finds such rates of return to be below a reasonable level and inadequate to attract capital to the enterprise.

In the interest of expeditious processing of this rate matter, so that needed rate relief might be obtained promptly on a basis compatible with the Commission's recent rate decision, witness for applicant stated that, as a result of conferences between the Commission staff and company representatives, the company reduced its requested rate of return to 5.75 per cent, which the Commission had found fair and reasonable in its prior Decision No. 47963, dated November 25, 1952, and, secondly, the company followed methods employed by the Commission staff in presenting its evidence in that proceeding. This reduced the originally requested increase from \$440,000 to \$200,500 per annum. By so doing, applicant alleges that its rate proposal will barely be adequate to meet its public obligations and requests that such showing and the methods employed therein be accepted without prejudice to applicant's position in any future rate proceeding.

In essence, applicant seeks no more than to be returned to the earning position intended to result from this Commission's Decision No. 47963.

Applicant's specific rate proposals, in amount and percentage, based on the adjusted operations for the twelve months ended June 30, 1953, are summarized as follows:

<u>Schedules</u>	<u>Gross Amount of Increase</u>	<u>Present Increase</u>
General Service "A"	\$ 44,300	3.93
Domestic Service "D"	109,200	5.27
Commercial "H"	2,000	5.0
General Power	11,500	2.0
Industrial Power	4,600	1.5
Agricultural Power (inc. special contracts)	22,400	3.0
Street Lighting	6,300	7.0
Total	<u>200,500</u>	4.04

Applicant has also proposed to increase the present turn-on charge, assessed against seasonal or occasional users, from \$1.50 to \$3.00.

Nature of Evidence.

Applicant's showing consisted of the placing in evidence of five exhibits supported by the testimony of three witnesses. Four of these exhibits had previously been distributed to the interested parties. The other exhibit (Exhibit No. 3) consisted of an agreement with respect to taxes, which is discussed later. The Commission staff and the Farm Bureau representative made no affirmative presentations but participated in the cross-examination of witnesses. The staff by its counsel stated that applicant had made a number of changes in its proposed exhibit on "Recorded, Adjusted and Forecasted Results of Operation and Basis for Requested Increase in Electric Rates" to comply with the recommendations by the staff and, with exceptions, the staff was of the opinion that the applicant had followed the methods employed by the staff in the prior electric rate proceeding of applicant (Application No. 33014) and

that in the certain instances where the methods of applicant differed from those employed by the staff, the results as set forth in the exhibit were reasonable for the purpose of this proceeding.

Calculations developing the net for return were made for six periods. While applicant does not subscribe in principle to all of the adjustments made, it did adjust for abnormalities and nonrecurring items and to reflect recent changes in levels of revenues and costs exclusive of those attributable to growth. Depreciated rate bases were developed for the same periods and include \$300,000 as a provision for working cash capital, an amount identical with that shown by the staff in its rate base in the prior rate proceeding which was adopted by the Commission. The results of these calculations respecting results of operations under present rates are summarized as follows:

PRESENT RATES

Results of Operations

	<u>Electric Department</u>	<u>Total Company</u>
Twelve Months Ended:		
December 31, 1951		
Net for Return	\$ 609,662	\$ 1,385,041
Rate Base	9,136,149	23,937,293
Rate of Return	6.67%	5.79%
June 30, 1952		
Net for Return	600,666	1,421,930
Rate Base	9,781,686	25,541,488
Rate of Return	6.14%	5.57%
December 31, 1952		
Net for Return	612,180	1,408,243
Rate Base	10,438,169	27,122,688
Rate of Return	5.86%	5.19%
June 30, 1953		
Net for Return	626,405	1,448,135
Rate Base	11,009,911	28,535,370
Rate of Return	5.69%	5.07%
December 31, 1953(a)		
Net for Return	631,402	1,457,055
Rate Base	11,517,321	29,967,488
Rate of Return	5.48%	4.86%

December 31, 1954 (Estimated)		
Net for Return	620,524	1,446,062
Rate Base	12,544,758	32,456,766
Rate of Return	4.95%	4.46%

(a) Last six months estimated.

It will be noted from the above tabulation that the rates of return for the company as a whole are lower than those for the electric department. Applicant has other applications pending before the Commission seeking increases in its gas and water rates.

The downward trend in rate of return, apparent in the above tabulation, has been averaged at 0.5 per cent per year by applicant in making a comparison with its forecast of 1954 operations. As a result, its requested increase is expected to produce no more than a 5.75 per cent rate of return during such period.

Conclusions

We find that applicant is in need of and entitled to the increased revenues requested. Its spread of revenue requirements between classes of customers appears to be reasonable and the specific rate changes requested will be authorized except the turn-on charge which will be authorized at \$2.50, instead of \$3.00.

Federal taxes on income have a marked effect on rate of return. Applicant's presentation has been predicated on a continuing aggregate federal income tax rate of 52 per cent. Such rate, under present law, will be reduced to 47 per cent on April 1, 1954. That such reduction will actually occur is seriously questioned by applicant. However, in order to insure that applicant's customers will not be required to provide more than the amount of taxes properly chargeable to operating expenses, applicant has entered into a written understanding (Exhibit No. 3 in this proceeding) by which it agrees to adjust its rate schedules to reflect the effect of any change in income taxes. Such written understanding is reasonable and will be approved.

O R D E R

Coast Counties Gas and Electric Company having applied to this Commission for an order authorizing increases in electric rates and charges, public hearing having been held, the matter having been submitted and now being ready for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates and charges authorized herein are justified and that present rates, in so far as they differ from those herein authorized, for the future are unjust and unreasonable; therefore,

IT IS ORDERED as follows:

1. Applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order and in conformity with General Order No. 96, the schedules of rates at the increased charges and amended conditions shown thereon set forth in Exhibit C attached to the application, except that the turn-on charge contained in the "A" and "D" Schedules shall be \$2.50, and, after not less than three days' notice to the public and to this Commission, to make said rates effective for service rendered on and after January 1, 1954.
2. The memorandum of understanding regarding federal income taxes contained in Exhibit No. 3 in this proceeding is hereby approved and applicant is directed to govern itself in accordance with the terms thereof.

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

Dated at San Francisco, California, this 8th day of December, 1953.

[Signature]
President

[Signature]

[Signature]

[Signature]

[Signature]
Commissioners