

ORIGINAL

Decision No. 49417

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of)
 The California Oregon Power Company)
 for authority under Section 454 of) Application No. 34349
 the Public Utilities Act to increase)
 its rates and charges.)

Appearances

For applicant: Brobeck, Phleger & Harrison,
 by George D. Rives and Robert N. Lowry.

For protestants: Scott Valley Chamber of
 Commerce, by Don Avery.

Paul S. Visher, in propria persona.

For interested party: California Farm Bureau
 Federation, by J. J. Deuel and Eldon Dye.

For Commission staff: Harold J. McCarthy,
William C. Bricca, John F. Donovan and Carol T. Coffey.

O P I N I O N

The California Oregon Power Company, by the above-entitled application filed May 13, 1953, seeks an order of this Commission authorizing increases in electric rates and charges for service rendered in California. Applicant serves domestic, commercial, industrial, agricultural and municipal customers in northern California and southern Oregon. In California its electric system serves 28 communities and adjacent rural areas in Siskiyou, Modoc, Del Norte, Trinity and Shasta Counties. By this application applicant seeks to increase its electric rates by 20 per cent.

After due and proper notice, public hearings in the matter were held before Commissioner Kenneth Potter and Examiner F. Everett Emerson on October 28 and 29, 1953 at Yreka. Following receipt of

late-filed exhibits, the matter was submitted for decision on November 20, 1953. During the course of this proceeding 12 witnesses were heard and 31 exhibits were received in evidence.

Applicant's Position and Request

Since 1945 applicant has experienced unprecedented growth in system load. To meet such increased demand applicant has been engaged continuously in an extensive construction program which it expects to continue for the next several years. During this period all of applicant's activities, construction, operation and maintenance, have been conducted under the impact of inflationary forces. The prices of materials consumed have increased substantially and wages have increased approximately 189 per cent since World War II. Other than labor, applicant's largest single item of operating expense has been the cost of purchased power which, on a kilowatt hour basis, has increased by over 84 per cent in the same period. The investment in plant has increased from \$726 per customer in 1945 to \$1,074 per customer at the end of the year 1952. The over-all effect of these factors has been one of decreasing earnings and a declining rate of return, according to applicant.

Pursuant to authorization of this Commission, with similar authorization in Oregon, upward rate adjustments amounting to 3.23 per cent were made in May 1952, based upon the level of 1951 business, and 2.95 per cent in May 1953, based upon the level of business in 1952. While these upward adjustments were expected to produce additional revenues, their effects were primarily those of establishing more equitable relationships between the rates charged various classes of customers. Applicant has found that the additional revenues produced by such adjustments have not been sufficient to provide the gross revenues needed to produce a fair and reasonable return on its investment in electric properties. It further maintains that

increased customer density and increased usage has been insufficient to offset the adverse effect of inflation upon its earnings. Applicant claims that the continuation of present electric rates will seriously affect its financial integrity and render it unable to obtain, on a sound and economical basis, the additional capital funds necessary to permanently finance the plant additions required to serve the demands of public service.

On an average year company-wide basis applicant originally sought a gross revenue increase of \$2,459,600 annually. An annual increase of \$543,700 was originally sought from its California customers. Applicant's rate proposal as finally presented at the hearing in this matter is for a 20 per cent increase in all rates except those covered by special contracts and in the special rate area in and about Klamath, Del Norte County. However, it intends to renegotiate all contracts, except that with the federal government, so as to effect a like increase in contract revenues. Elimination of the Klamath rate area increase reduces the originally sought amounts by \$24,300 annually. It specifically desires system-wide rates and has requested that the Commission authorize rates identical with those which the Public Utilities Commissioner of Oregon may authorize in the proceeding pending before him.

Position of Protestants

The Scott Valley Chamber of Commerce opposed the proposed rate increase from two standpoints. The first, on the grounds that economic conditions in the area have taken a turn downward and that, therefore, agriculture and the lumbering industry would find the proposed rates not only burdensome but would constitute extreme hardship on the area. The second point of opposition was made on the grounds that applicant, to date has not made sufficient progress in improving service deficiencies to warrant an increase in rates.

Protestant Visher did not question applicant's need for increased revenues. He did oppose applicant's proposal for a uniform increase in rates for all classifications, however, maintaining that agricultural service, in effect, was now suffering from rate discrimination resulting from the differential between the rates charged farmers in the Tule Lake Basin, under a long-term contract with the Bureau of Reclamation, and the rates charged farmers outside of the area covered by such contract.

Nature of Evidence

Applicant's showing consisted of the placing in evidence of 31 exhibits supported by the testimony of seven witnesses. Exhibits of major import had been distributed to interested parties in advance of the hearing.

The Commission staff and the Farm Bureau made no affirmative presentations but participated in the cross-examination of witnesses. In addition, the staff reviewed the records and other underlying data prior to submission of this matter and were accorded the opportunity of requesting an additional 10-day period, if it so requested, should it discover any discrepancy between the figures appearing on applicant's books and the reported and recorded figures contained in applicant's exhibits. No request for additional time was made, from which we conclude that the staff, for the purposes of this proceeding, did not take exception either with respect to reported figures or to the adjustments thereto contained in applicant's exhibits. Counsel for the staff stated at the hearing, however, that the staff intended in no way to approve or subscribe to applicant's method of accounting for depreciation of the North Umpqua Project or to the separation study made by applicant.

Calculations developing the net for return were made for three 12-month periods ending March 31, June 30 and September 30, 1953.

Adjustments to the March 31, 1953 recorded figures were made in order to place this period on a normal year basis reflecting full year effect of previous rate increases, elimination of the now discontinued sales to Mountain States Power Company and Coos-Curry Electric Cooperative, nonrecurring sales to Inter-Company Power Pool, average water conditions and average temperatures, dump power and purchased power as affected by the preceding items, payroll increases and wages at March 1953 levels, taxes at March 1953 rates, depreciation accruals on a straight-line basis, and abnormal or non-recurring items to normalize operating expense items.

Applicant operates an integrated electric system which serves portions of Oregon and California. The states' common boundary creates an artificial division affecting regulatory jurisdiction. Because of such situation applicant made a separation study by which it apportioned its plant, certain revenues and expenses between the two states.

The results of the above-mentioned calculations respecting results of operations are summarized as follows:

RESULTS OF OPERATIONS

12 Months Ended March 31, 1953
As Adjusted to Average-Year Basis

Item	California Operations		Total Company	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$ 2,964,533	\$ 3,508,233	\$13,033,186	\$15,492,786
Operating Expenses	2,329,822	2,625,522	9,633,057	10,931,757
Net Revenue	634,711	882,711	3,400,129	4,561,029
Rate Base	16,655,868	16,655,868	70,922,785	70,922,785
Rate of Return	3.81%	5.30%	4.79%	6.43%

12-Month Periods Recorded
Present Rates, Total Company

Item	March 31, 1953	June 30, 1953	Sept. 30, 1953
Operating Revenues	\$14,013,717	\$14,279,969	\$14,387,596
Operating Expenses	10,361,549	10,568,051	10,702,226
Net Revenue	3,652,168	3,711,918	3,685,370
Rate Base	70,987,828	73,724,881	76,571,959
Rate of Return	5.14%	5.03%	4.81%

A wage increase effective July 1, 1953 is not included in the above figures except in the 12-month period ending September 30, 1953 where it is reflected in the recorded results for the last three months of the period. The separation study involves substantial elements of judgment, and although they have been used for the purposes of this proceeding, we are not passing upon the methods employed.

The above figures indicate a downward trend in the rate of return. No estimate was made by the company of its operations for the year 1954 but it is apparent from the record that the earnings would be less than the above figures indicate. Under any conditions disclosed by the record the present rates are producing less than a fair return on the rate base.

Applicant currently has outstanding \$18,200,000 of temporary bank loans which mature April 1, 1954. All of this debt must be repaid through the use of proceeds to be derived from the issuance of new permanent securities. In addition, applicant estimates that its construction program will continue at a high level approximating, on an average, about \$15,000,000 per annum for the next five years. To provide the funds necessary to finance this construction program applicant will be required to utilize outside sources of capital since past experience indicates that only about 13 per cent of its capital requirements can be financed through use of funds provided by depreciation accruals and retained earnings.

It is apparent that applicant's earning position must be improved if it is to attract investor capital in amounts sufficient to finance the growth in plant which the discharge of its public duty reasonably demands. ~~For the third quarter of 1953 earnings were less than the quarterly dividend and in the prior quarter were at the rate of \$1.61 per share. It is apparent that applicant's earning position must be improved if it is to attract investor capital in amounts sufficient to finance the growth in plant which the demands of its electric customers require.~~

Conclusions

We find that applicant has clearly demonstrated its need of and entitlement to increased revenues.

In view of applicant's request that it be permitted to file rates for its California operations identical with those to be effective in Oregon, we shall authorize rates which will amount to an over-all increase of approximately 16 per cent and which will produce an annual gross revenue increase of \$440,000 from California

operations, based upon the average or normalized test period ending March 31, 1953. We find that this will produce net revenues not exceeding a fair return on the rate base.

We have reviewed applicant's contract with the United States, as amended^{1/} and as accepted for filing with this Commission, which sets forth rates for irrigation and pumping power used in connection with the Klamath Reclamation Project of the U. S. Reclamation Service. Although these rates are lower than the presently filed tariff for Agricultural Power Service, we find no unreasonable discrimination in the application of said contract to the particular circumstances pertaining to power deliveries accorded special rate treatment therein. However, contracts for service at rates less than filed tariffs are not permitted to constitute a burden on other customers.

Applicant is continuing to show progress with respect to the program for improvement of service deficiencies and system reinforcement within, or as it affects, California. Applicant is expected to pursue, with diligence and earnestness, the improvement program as directed by this Commission's Decision No. 48416, issued March 30, 1953.

Authorized Rates

The rates hereinafter authorized are so designed that increases by classes of service will be as follows, with the total effect being that above-mentioned:

Residential	15.1%
Commercial	13.4
Industrial	17.3
Agricultural (Excl. U.S.R.S.)	17.0
Street & Highway Lighting	20.0

^{1/} The contract bears a date of February 24, 1917 and runs for a term of fifty years.

In reaching a conclusion as to the appropriate adjustment of the several schedules, consideration has been given to the modification of the residential service schedule which became effective May 1, 1953, under authorization granted by Decision No. 48416, dated March 30, 1953, in Application No. 33734. At that time the Residential Schedules 10 and 60 were simplified and adjustments were made in the rates for the several blocks of those schedules, which were estimated to result in an increase of approximately \$61,500 annually, based on the level of business for the year 1952. The most important change was an increase from 0.8 cents per kwhr to 1 cent per kwhr for all energy used in excess of 450 kwhr per meter per month on Schedule 10, with a corresponding change on Schedule 60. In this proceeding applicant proposed to increase the terminal block of Schedule 10 from 1.0 cents to 1.2 cents. However, in view of the increase which became effective May 1, 1953, we conclude that the terminal block rate which should be authorized at this time for Schedule 10 is 1.1 cents per kwhr.

Applicant's proposal for a 20 per cent increase in each of the rates and charges of its Schedule 30, General Service, would emphasize the relatively high average rate of such schedule for consumption of about 1,000 kwhr per month. Adjustments have been made in the initial blocks to effect an appropriate gradation of average rate with monthly use on that schedule. The initial blocks of the primary rate on Schedule 20 have been adjusted to conform with the authorized rates for the initial blocks on Schedules 10 and 30.

We have followed applicant's request, made at the hearing, that no change be made in its rates for service in the Klamath Rate Area, Del Norte County. At present the rates in that area are approximately 50 per cent greater than applicant's comparable rates for other territory, and will remain at their present level, somewhat

above the rate levels herein authorized for the remainder of applicant's system in California.

The electric contracts presently in effect will not be disturbed in this order, but applicant has the option of terminating such contracts, in accordance with their terms, and placing the contract customers on the regularly filed schedules or it may undertake the renegotiation of said contracts. In calculating revenue effects of the increased rates, allowance has been made herein for a commensurate increase in special contracts, except for that with U. S. Reclamation Service.

O R D E R

The California Oregon Power Company having applied to this Commission for an order authorizing increases in rates and charges for electric service rendered in California, public hearing thereon 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 and charges, in so far as they differ from those hereinafter authorized, for the future are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission, after the effective date of this order and in conformance with the provisions of General Order No. 96, the schedules of rates and charges set forth in Section B of Exhibit No. 19 in this proceeding as specifically approved or modified by Appendix A attached to this order and, after not less than one days' notice to the public and to this Commission, to make said

rates and charges effective for service rendered on and after
January 1, 1954.

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

Dated at San Francisco, California, this 11th
day of December, 1953.

[Signature]
President
James J. Cialini
[Signature]
[Signature]
Verne Rogans
Commissioners

APPENDIX A
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The tariffs set forth in Section B of Exhibit No. 19 in this proceeding are specifically approved or modified as follows:

Schedule 10. Residential Service

Approved with the following rates:

Energy Charge	<u>Per Meter per Month</u>
First 60 kwhr, per kwhr	4.0¢
Next 90 kwhr, per kwhr	3.0
Next 150 kwhr, per kwhr	1.8
Over 300 kwhr, per kwhr	1.1

Schedule 11. Domestic Water Heating Service

Approved without change.

Schedule 20. Agricultural Power Service

Approved with the following rates:

Primary Rate	<u>Per Kwhr</u>
First 600 kwhrs	4.0¢
Next 900 kwhrs	3.5
Next 1,500 kwhrs	2.4
Excess kilowatt-hours	1.8
 Secondary Rate	
First 1,000 kwhrs	1.8¢
Next 4,000 kwhrs	1.2
Next 5,000 kwhrs	0.9
Excess kilowatt-hours	0.6

Minimum Charge

Seasonal minimum, \$14.40 for first hp and \$10.80 per hp for excess but not less than \$14.40 per season.

Schedule 30. General Service

Approved with the following rates:

Demand Charge

First 20 kilowatts of billing demand	No Charge
Excess kilowatts of billing demand	60¢ per kw

Energy Charge

	<u>Per Kwhr</u>
First 300 kwhrs	4.0¢
Next 450 kwhrs	3.5
Next 1,050 kwhrs	3.0
Next 8,400 kwhrs	1.8
Next 49,800 kwhrs	0.9
Excess kilowatt-hours	0.6

Monthly Minimum Charge

Amount of Demand Charge, but not less than:

- \$1.80 for single-phase service.
- \$7.20 for three-phase service.

Schedule 31. Commercial Water Heating Service - Controlled

Approved with the following rate and minimum charge:

- Monthly rate \$0.93 per kilowatt-hour.
- Monthly minimum \$1.15 plus \$1.15 for each kw in excess of 3 kw.

Schedule 40. Street and Highway Lighting - Overhead

Approved without change.

Schedule 41. Street and Highway Lighting - Electrolux

Approved without change.

Schedule 42. Airway Service

Approved without change.

Schedules 60, 70, 80, 81, 90, 91 and 92

No change from present effective schedules is authorized for the Klamath Rate Area.

CALIFORNIA EXCEPT KLAMATH RATE AREA

THE CALIFORNIA OREGON POWER COMPANY
 COMPARISON OF TYPICAL BILLS UNDER
 DOMESTIC SCHEDULES MONTHLY AND PRESENTLY
 EFFECTIVE AND AS PROPOSED
 IN APPLICATION NO. 3429

Monthly Consumption Kwhr	Schedule Effective 5/1/53 Co. Proposed Sched. in A-3, 3491 Trial Schedule "A"											
	Schedule Effective 1/1/52			Schedule Eff. 5/1/52			Per Cent Increase Over Sched. Effective 5/1/52			Per Cent Increase Over Sched. Effective 1/1/52		
	Amount	% Increase	Amount	% Increase	Amount	% Increase	Amount	% Increase	Amount	% Increase	Amount	% Increase
<u>Customer without Water Heater, Range or Major Space Heating</u>												
0	\$ 1.00	\$ 1.50	50.0%	\$ 1.50	0%	50.0%	\$ 1.80	20.0%	80.0%	\$ 1.80	20.0%	80.0%
60	2.05	2.10	2.4	2.10	0	2.4	2.52	20.0	22.9	2.40	14.3	17.1
150	4.50	4.80	6.7	4.26	(11.3)	(5.3)	5.11	20.0	13.6	5.10	19.7	13.3
300	7.13	6.63	(6.3)	6.51	(2.5)	(8.7)	7.81	20.0	9.5	7.80	19.8	9.4
600	9.93	9.75	(2.3)	9.51	(2.5)	(4.7)	11.41	20.0	14.3	11.10	16.7	11.2
1,200	14.78	14.55	(1.6)	15.51	6.6	4.9	18.61	20.0	25.9	17.70	14.1	19.8
2,400	24.38	24.15	(0.9)	27.51	13.9	12.8	33.01	20.0	35.4	30.90	12.3	26.7
<u>Customer with Range and Water Heater* but no Major Space Heating</u>												
0	3.50	1.50	(57.1)	1.50	0	(57.1)	1.80	20.0	(48.6)	1.80	20.0	(48.6)
60	3.50	2.10	(40.0)	2.10	0	(40.0)	2.52	20.0	(28.0)	2.40	14.3	(31.4)
150	4.50	4.80	6.7	4.26	(11.3)	(5.3)	5.11	20.0	13.6	5.10	19.7	13.3
300	7.13	6.63	(6.3)	6.51	(2.5)	(8.7)	7.81	20.0	9.5	7.80	19.8	9.4
600	9.93	9.75	(2.3)	9.51	(2.5)	(4.7)	11.41	20.0	14.3	11.10	16.7	11.2
1,200	14.78	14.55	(1.6)	15.51	6.6	4.9	18.61	20.0	25.9	17.70	14.1	19.8
2,400	24.38	24.15	(0.9)	27.51	13.9	12.8	33.01	20.0	35.4	30.90	12.3	26.7
<u>Customer with Range Water Heater* and 15 Kw of Major Space Heating</u>												
0	6.00	6.00	0	1.50	(75.0)	(75.0)	1.80	20.0	(75.0)	1.80	20.0	(75.0)
60	6.00	6.00	0	2.10	(65.0)	(65.0)	2.52	20.0	(58.0)	2.40	14.3	(60.0)
150	6.00	6.00	0	4.26	(29.0)	(29.0)	5.11	20.0	(14.0)	5.10	19.7	(15.0)
300	7.13	6.63	(6.3)	6.51	(2.5)	(8.7)	7.81	20.0	9.5	7.80	19.8	9.4
600	9.93	9.75	(2.3)	9.51	(2.5)	(4.7)	11.41	20.0	14.3	11.10	16.7	11.2
1,200	14.78	14.55	(1.6)	15.51	6.6	4.9	18.61	20.0	25.9	17.70	14.1	19.8
2,400	24.38	24.15	(0.9)	27.51	13.9	12.8	33.01	20.0	35.4	30.90	12.3	26.7

(Decrease)

* 3 Kw