

ORIGINAL

Decision No. 50509

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the matter of the Application)
of California Electric Power) Application No. 34958
Company for increase of rates.) (Amended)

Henry W. Coil, Albert Cage, Donald J. Carman, H. M. Hammack and Kenneth M. Lemon for applicant; Brobeck, Phleger and Harrison by George D. Rives and Robert N. Lowry for California Manufacturers Association, West End Chemical Company, Pacific Coast Borax Company, Hanford Foundry Company, Kaiser Steel Corp., Concrete Conduit Company; Overton, Lyman, Prince and Vermille by Wayne H. Knight for Southwestern Portland Cement Company; Charles Goodwin, Clarence Alliman, George Spiegel and Reuben Lozner for Department of Defense and Executive Agencies of United States Government; Bruce Renwick, Rollin E. Woodbury and John Bury by Rollin E. Woodbury for Southern California Edison Company; J. J. Deuel for California Farm Bureau Federation, interested parties; Shelby V. Langford for City of Palm Springs; C. M. Brewer and Donald Stark for Temescal Water Company; Whitney Reeve for Ridgecrest residents, protestants; J. T. Phelps, Freyman Coleman, Charles W. Mors and Theodore Stein for the Commission staff.

O P I N I O N

Nature of Proceeding

California Electric Power Company, by the above-entitled application filed December 14, 1953 as amended April 22, 1954, seeks an order of this Commission authorizing increases in rates for electric service throughout its territory. Applicant originally sought a gross revenue increase of \$1,330,900 annually, based upon the estimated level of business during 1954. However, since the filing of its application, applicant has been accorded certain rate relief^{1/} and presently seeks a gross revenue increase of \$1,185,400.

^{1/} Increases of \$34,900 from sales to the U. S. Navy at Hawthorne and \$20,000 from sales to Mineral County Power System, both in Nevada, as authorized by the Federal Power Commission, plus \$90,367 from sales to the San Bernardino area as authorized by this Commission's preliminary order herein, Decision No. 50505.

Public Hearings

After due notice public hearings in the matter were held before Commissioner Kenneth Potter and Examiner F. Everett Emerson on June 11, July 28, July 29, October 20 and October 21, 1954, in Los Angeles. The matter was submitted on the latter date.

Applicant's Position

Applicant avers that present electric rates do not now, nor will they in the foreseeable future, afford applicant a fair return upon the original cost or original cost depreciated of its property used and useful in the public service. Applicant further avers that present rates do not produce earnings sufficient to cover the full cost of operation and maintenance, depreciation, taxes and return on its investment or its outstanding securities, or to maintain applicant's financial integrity and attract capital necessary for extensions, additions and betterments required by the public service; or afford a return equivalent to that earned by other enterprises having corresponding risks or by others with which applicant must compete in the capital market.

Applicant seeks a rate of return of 6.25 per cent on a normalized basis. Its rate proposal is to increase present rates and charges, with certain exceptions, by 9.14 per cent and applicant has estimated that by so increasing its electric rates it will be afforded an annual gross revenue increase of about \$1,185,400, an amount which it estimates will yield the rate of return sought. Applicant's proposal to increase rates by a flat percentage is predicated upon its understanding that such method is less objectionable to its customers than one involving increases on a kilowatt-hour basis.

Position of Other Parties

Only the applicant and Commission staff introduced evidence as to the results of operation. A witness for customers of applicant in Ridgecrest, a community adjacent to the China Lake Naval Ordnance Test Station, presented a petition protesting any increase in the rates applicable for service in the Ridgecrest area. A review of the level of these rates and character of service reveals that they bear a reasonable relationship to the level of rates applicable for similar service in other areas on the applicant's system.

Protests against any further increases in rates were also received from the City of Palm Springs, the Keeler Women's Club and the Mother's Club of Keeler. The last named group based its protest principally upon the quality of service received. The Commission has given careful consideration to these protests and has requested and obtained from applicant a report on service interruptions in Keeler. This latter matter will continue to have the Commission's attention through its staff.

Results of Operations

Applicant, by means of 18 exhibits and the testimony of five witnesses, and the Commission staff, by means of two exhibits and the testimony of nine witnesses, presented affirmative evidence respecting the results of applicant's operations. Other parties fully participated in the cross-examination of witnesses.

A summary of the estimated results of operations for the year 1954, as presented by applicant and the Commission staff, is shown in the following tabulation:

Estimated Results of Operations, Year 1954

Item	Applicant Adjusted Year	CPUC Staff Estimated Average Year
Operating Revenues ^a	\$15,914,900	\$15,770,400
Operating Expenses before taxes	8,877,400 ^c	8,881,500 ^c
Taxes ^b	3,584,000	3,452,200
Total Operating Expenses	12,461,400	12,333,700
Net Revenue	3,453,500	3,436,700
Rate Base (depreciated)	63,670,000	63,596,000
Rate of Return	5.42%	5.40%

- a. Including annualized effect of all rate increases authorized to date of submission.
- b. Including federal income taxes at a composite rate of 52%, based upon above operating revenues and their uncollectibles.
- c. Does not include effect on gas fuel costs of rate increase granted Southern California Gas Company under Decision No. 50742 dated November 3, 1954.

Based upon the "net-to-gross" multiplier of 2.182 developed by the Commission staff to reflect tax requirements, applicant's requested increase in gross revenues of \$1,185,400 would produce a net revenue increase of \$543,300. The above net revenues when augmented by this amount and related to the above-tabulated rate bases would yield a rate of return of 6.28 per cent on applicant's basis and 6.26 per cent on the staff's basis.

In addition to that contained in the above tabulation, applicant and the staff presented similar information for the adjusted year 1953. For such year applicant indicated a rate of return of 5.83 per cent while the staff study indicated a rate of return of 5.69 per cent. These rates of return are not directly comparable, however, as the staff's results were adjusted to reflect the 1954 wage level while applicant's results were not.

As can be seen from the above tabulation, the differences between applicant's and the staff's revenues, expenses, and rate base are relatively minor. The staff's estimate reflects adjustments for average temperature and precipitation whereas applicant did not make such adjustments. The difference between the applicant's and staff's estimates of operating expenses before taxes is negligible. The \$74,000 difference in rate base reflects minor differences in several components. Subsequent to the hearings in this proceeding the Commission has granted an increase in gas rates to Southern California Gas Company which, it is estimated, will increase applicant's production expenses by \$32,000 on an annual basis.

We will adopt for purposes of this decision the following operating results for the estimated year 1954 at present electric rates and with federal income taxes computed at the present 52 per cent rate:

Operating revenue	\$15,770,000	
Total operating expenses	12,349,000	✓
Net revenue	3,421,000	✓
Rate base	63,630,000	✓
Rate of return	5.38%	

Federal Income Taxes

The Commission takes official notice of the fact that, under the Internal Revenue Code of 1954, the federal normal income tax rate will decrease five percentage points, effective April 1, 1955. The order herein will provide that applicant file tariff schedules, effective April 1, 1955, reflecting the indicated reduction in tax rate. The applicant may, however, file a supplemental application not later than March 1, 1955, requesting that the reduction in rates not be put into effect on April 1 and that the higher level of rates be continued, subject to refund, should it

appear at that time that the present tax rate will be continued in effect.

Rate of Return

The record shows that applicant has financed its investment in properties and other assets through the issue of bonds, shares of its preferred and common stock, and through the reinvestment of retained earnings. Exhibit 18 shows that applicant's capital structure as of December 31, 1953, consisted of the following:

Bonds	\$37,250,000	54.5%
Preferred stock	10,188,150	14.9
Equity capital	<u>20,863,206</u>	<u>30.6</u>
Total	68,301,356	100.0

This exhibit also shows that the effective interest rate on the bonds and preferred stock outstanding on December 31, 1953, was 3.64 per cent, and that if consideration were given to the refunding in 1954 of applicant's 3-7/8 per cent bonds through the use of proceeds from the issue of a like amount of 3-1/4 per cent bonds, the interest rate would be reduced to 3.53 per cent. The exhibit also shows that during the five years ended December 31, 1953, applicant paid an annual dividend of 60 cents a share on its outstanding common stock, that its earnings on common stock varied from a low of 44 cents a share in 1951 to a high of \$1.10 a share in 1953, and that its earnings, expressed as a percentage of equity capital, varied from a low of 6.2 per cent in 1951 to a high of 13.1 per cent in 1953.

It is noted that applicant, as of December 31, 1953, had investments in securities of other companies totaling \$8,892,802 and a net investment in nonutility properties of \$1,721,458, as compared with a net investment in electric plant of \$61,945,027; that its net operating income from utility operations was \$2,900,180 in 1952 and \$2,930,523 in 1953, as compared with income from investments and nonutility operations of \$469,068 in 1952 and \$1,393,828 in

1953. It is thus apparent that applicant's over-all results of operation have been materially affected by its investment in and income from sources other than its electric utility operations.

In this proceeding applicant, in support of its request for a 6.25 per cent return, introduced an exhibit showing the returns realized on invested capital by 54 electric utility companies in the United States whose bonds are rated single A by Moody's Investment Service. The exhibit shows that the 54 selected companies earned an average of 6.35 per cent on their invested capital over the three-year period 1951, 1952 and 1953.

While information relative to the earnings of other electric utilities on their invested capital is informative and is a factor which can be considered, it is the practice of this Commission in fixing rates to concern itself primarily with the determination of the fair return to be allowed on the investment in rate base which pertains to applicant's electric operations in California. We find that 6 per cent is a fair and reasonable rate of return for applicant to earn in the future on its California electric operations. To compensate for an admitted down trend in rate of return and in order that applicant may earn such 6 per cent return for the future, a 6.25 per cent rate of return will be applied to the adopted rate base of \$63,630,000 for the estimated year 1954, which rate base we find to be reasonable. This results in an additional net revenue requirement of \$553,000, or an additional gross revenue requirement of \$1,207,000, based upon a 52 per cent federal income tax rate. The electric rates hereinafter authorized should yield such revenues. The \$1,207,000 compares with applicant's request of \$1,185,400 plus provision for a \$32,000 fuel price increase.

Spread of Rates

Applicant does not propose any increase at this time in the rates to resale customers; in the rates applicable to Hawthorne Naval Ammunition Depot and Mineral County Power System, which rates were recently fixed by the Federal Power Commission; nor in the rates and charges for interchange and interdivisional service.

By Decision No. 50505 in this proceeding, applicant's rates for service in the San Bernardino area were fixed at the same level as the rates for Southern California Edison Company in that area. Applicant seeks no further increase in these rates. It is our opinion that the rates for the San Bernardino area service should be increased above the level of existing rates in order to maintain a reasonable relationship between such rates and those to be authorized for service to customers in other areas served by applicant.

The required increase of \$1,207,000 in gross revenues will be accomplished by applying an 8.79 per cent increase to all present rates other than schedules effective in the San Bernardino area; the resale schedule, the Mineral County and Hawthorne service, interchange service and interdivisional operations.

The rates presently effective in the San Bernardino area (Schedules A-4, A-5; D-1, H-1, P-1-C, and P-1-D) as authorized by Decision No. 50505, should be increased by 6.80 per cent, which would be equivalent to an increase of 8.79 per cent over the level of rates authorized in 1951 by our Decision No. 46397. We shall authorize such an increase in these schedules. By so doing 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 in view of the lower rates authorized for the Southern California Edison Company in the San Bernardino area. If applicant is unable to effect increases in these schedules, it is estimated that the increase in revenues it will receive under a full year's application of the new rates, based on 1954 estimated, will be about \$83,000 less than the \$1,207,000 herein authorized.

Applicant now serves six customers under contracts in which the rate is a filed tariff. These customers are:

<u>Customer</u>	<u>Rate</u>
Industrial Electrica Mexicana	P-3
Kaiser Company Inc.	P-2
Edwards Air Force Base	P-2
Naval Ordnance Test Station - Inyokern	P-2 and C-2
County of San Bernardino Housing Authority	A-4
Mojave Weather Station	C-2

Such rates and charges as are being authorized for these tariff schedules will be applied to such contract customers.

Applicant also furnishes service to three customers under contracts at other than filed tariff schedules. These involve primarily energy interchange or special service to the following utilities and public agency:

City of Los Angeles	-	Interchange
San Diego Gas & Electric Company	-	Interchange
Imperial Irrigation District	-	Standby for Coachella

No increase will be authorized in these rates at this time.

Applicant's existing Schedule PA-2 provides for a combination of meter readings for billing purposes. Such schedule is a "closed" schedule; that is, no new customers may be served under it. The schedule is now applicable to only a few customers, among whom is Temescal Water Company. This water company is supplied

by means of a "sub-distribution" system, covering a distance approximating 9 miles or more in length, on which conjunctive billing is applied to many meter readings. Witnesses for Temescal protested any increase in electric rates to such system and indicated that, if increased power costs made it necessary, the water company would undertake pumping by other than electric motors. The evidence in this proceeding indicates that the serving of this type of customer is not now profitable and is unduly discriminatory and we so find. Applicant will be directed to discontinue its Schedule PA-2 and to cease combining meter readings for billing purposes on all other schedules as of October 1, 1956, and to transfer customers now being served on Schedule PA-2 to other appropriate rate schedules.

Schedule Designation

Uniformity in schedule designation among electric utilities appears desirable. For this purpose it appears appropriate that the General Service schedules presently using the "C" series of numbers be refiled using an "A" series of numbers. Applicant now uses the "GP" series of numbers to designate Power-General Pumping Service. Since this is primarily a power schedule, use of the "P" series of numbers is indicated. It also seems appropriate to redesignate the "PMP" series of numbers for Power-Municipal Pumping to a "PM" series. Applicant renders resale service under Schedule P-3, which will be redesignated as an "R" schedule. Applicant's present terminology for the remainder of the schedules appears reasonable and should be continued, except that all references to territory served now contained in the title of rate schedules should be deleted and confined to the body of the schedule.

The letter and number of designations being adopted herein for the schedules mentioned above are as follows:

<u>Authorized Schedules</u>		<u>Present</u>
<u>Title</u>	<u>No.</u>	<u>Schedule Nos.</u>
General Service	A-1, A-2, A-3	C-1, C-2; C-3
Power - General Pumping Service	P-3	GP-1
Power - General Pumping Service	P-4	GP-3
Power - Municipal Pump. Service	PM-1, PM-2	PMP-1; PMP-2
Resale Service	R	P-3

Applicant should annually review its electric rate area boundaries and take the initiative in developing appropriate rate level zoning criteria by which customers may be transferred to more appropriate rate levels as future conditions or growth of the system may indicate such transfers to be warranted.

ORDER

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 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 herein prescribed, for the future are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. Applicant shall adopt the schedule designation set forth in the foregoing opinion, and is authorized to file in quadruplicate with this Commission after the effective date of this order and in conformity with General Order No. 96, revised tariff schedules with rates, charges and conditions adjusted as set forth in Paragraph 2 of this order and, on not less than five days' notice to this Commission and to the public, to make said tariff schedules effective for service rendered on and after January 22, 1955.

2. The present schedules for all rates and charges stated in its electric tariffs shall be adjusted as follows:
 - a. Each demand charge, the rate for each energy block, and each minimum charge of applicant's present schedules except Schedules A-4, A-5, D-1, H-1, P-1-C, P-1-D and the resale schedule P-3 shall be multiplied by 1.0879.
 - b. In the final computation of each item separately, the rates and charges thus computed shall be rounded to the nearest 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.
 - c. For Schedules A-4, A-5, D-1, H-1, P-1-C and P-1-D the authorized multiplier is 1.0680. If applicant decides not to make such revisions in these schedules in the San Bernardino area, it shall retain in effect the present rates and charges of said tariffs.
3. Applicant is directed to terminate its present Schedule PA-2 on October 1, 1956 and, on not less than five days' prior notice, to place the affected customers on the most nearly applicable filed tariff schedules. Where conjunctive billing is now practiced, applicant is directed to terminate such practice on October 1, 1956, unless sooner terminated by negotiation, by the expiration of a contract or by the further order of this Commission.
4. Unless otherwise ordered, applicant shall, prior to April 1, 1955, refile its tariff schedules, to be effective April 1, 1955, reducing the increased rates authorized herein by 3.07 per cent. The new multiplier to be applied to the tariffs authorized herein, excluding Schedule R, will be 0.9693.

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

Dated at San Francisco, California, this 29th day of

DECEMBER, 1954.

Peter E. Mitchell
President.
Justus F. Casner
Louise Potter
Rogelio Gutierrez

Commissioner Verne Scoggins, being necessarily absent, did not participate in the disposition of this proceeding.

Commissioners.