

Decision No. 57687

ORIGINAL

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of) CALIFORNIA-PACIFIC UTILITIES COMPANY,) a California corporation, for authori-) ty to increase its electric rates and) charges for electric service to the) City of Needles, California, and) adjacent territory.)	Application No. 36749 (Reopened)
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In the Matter of the Suspension and) Investigation on the Commission's own) motion of the proposed rates for its) Needles Electric Department, filed by) California-Pacific Utilities Company.)	Case No. 6102
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(Appearances and Witnesses
are listed in Appendix B)

OPINION ON REOPENING

Reason for Reopening Application No. 36749

On May 13, 1958, the Commission reopened the above-entitled application after the applicant filed reduced electric rate schedules, stating:

"California-Pacific Utilities Company having filed its Advice Letter No. 45-E dated May 9, 1958, transmitting tariff sheets numbers Cal. P.U.C. 287-E to 294-E, inclusive, the Commission having suspended said tariff sheets and instituted an investigation (above-entitled Case No. 6102) into the propriety and reasonableness of the rates and charges as set forth on said sheets, and good cause appearing,

"IT IS HEREBY ORDERED that the above-entitled proceeding is reopened for further hearing before Examiner M. W. Edwards at 10 a.m., on Thursday, the 22nd day of May, 1958, in the City of Needles."

The principal purpose of the filing was to offset increased rates made necessary because of the termination on December 31, 1954, of the applicant's Hoover power contract and the subsequent renewal thereof on April 30, 1958.

Following the hearing on May 22, 1958, the Commission on May 27, 1958, issued an interim opinion and order, Decision No. 56731: (1) lifting the suspension on the revised tariffs, (2) granting authority to place the revised tariff schedules into effect as of May 1, 1958, on an interim, temporary and provisional basis, and (3) holding open the proceeding for further hearing, investigation and decision in this matter.

Additional Public Hearing

An additional day of public hearing was held upon this matter before Examiner Edwards in Los Angeles on July 21, 1958. At the May and July hearings applicant submitted 16 main exhibits and 3 supplemental exhibits and testimony by two witnesses in support of its revised rates. The Commission's staff, represented by its Electrical Engineer, presented one exhibit and testimony by one witness, and cross-examined applicant's witnesses for the purpose of developing a full record to aid the Commission in deciding this matter. Counsel for the City of Needles extensively cross-examined the applicant's witnesses at both days of hearing and cross-examined the staff's witness at the second day of hearing. Closing and reply briefs have been filed and the matter now is ready for decision.

Applicant's Power Negotiations

By Decision No. 51750, dated July 26, 1955, applicant was authorized to increase its electric rates and charges applicable to its Needles Electric Department in the estimated annual amount of \$82,162 or 25.9 per cent. Such increase was necessitated by the fact that applicant's purchased power costs were increased by approximately \$120,000 annually at the 1955 level of business owing to the cancellation on December 31, 1954, of its Hoover power

contract. Said decision allowed the revenue increase requested by the applicant (only approximately two-thirds of increased power cost of \$120,000) and took cognizance of applicant's commitment that if it was successful in its efforts to obtain renewal of the Hoover power contract, it was willing to reduce its rates commensurate with its then prevailing costs and a fair rate of return, and to refund any damages it might recover.

Applicant represents that both prior and subsequent to cancellation of its Hoover power contract in 1954, it had engaged in protracted negotiations with the Department of the Interior and the southern California allottees (City of Los Angeles, Southern California Edison Company and California Electric Power Company) for renewal of its Hoover power contract. When these negotiations failed, applicant instituted appropriate legal proceedings in the United States Court of Claims to recover damages against the United States for breach of contract.

On March 6, 1957, the United States Court of Claims held that applicant was entitled, under the provisions of the Boulder Canyon Project Act, to renewal of its contract for Metropolitan Water District unused energy until the energy was required by the Metropolitan Water District (149 F. Supp. 158). On December 9, 1957, the United States Supreme Court denied the Government's petition for a review of said decision (2 L. Ed. 2d 190). Thereafter, applicant states that it immediately resumed negotiations with the Department of the Interior, not only for renewal of the Hoover power contract, but also for a long-term, low-cost contract for power from other sources as it anticipated that the Metropolitan Water District would be using all of its Hoover entitlement within a short space of from one to three years.

Instead of then proceeding in the Court of Claims to determine the amount of its damages, applicant obtained what it considered to be a better settlement from the Government in April 1958. Applicant computed the excess power costs from January 1, 1955, to April 30, 1958, including legal expenses, to be \$368,173, of which \$278,580 would have been refundable. On the basis of the new settlement it estimated the future savings to Needles customers would be \$1,403,940 resulting from 20,000,000 kwhr per year of Hoover power from 1960 through 1962 and 26,000,000 kwhr per year of Davis power from 1963 through 1972.

New Hydro Power Contract

The new power contract is set forth in Exhibit No. 6102-2 and provides briefly:

- (a) For renewal of the contract of November 21, 1941, for the period May 1, 1958, to December 31, 1962, subject to partial or complete termination in event the surplus energy as to the needs of The Metropolitan Water District of Southern California is required by such water district.
- (b) For furnishing up to 6,000 kw of electric demand from power plants under the jurisdiction of the Parker-Davis Project of the Bureau of Reclamation for the period January 1, 1963, through December 31, 1972.
- (c) For release of the Government from liability for damages arising from its refusal to renew applicant's contract in 1955 and relinquishment of all right to further renewal of said contract except as provided in said agreement of April 30, 1958, and dismissed the Court of Claims suit against the Government.

Under this contract applicant represents that the Government will make every effort to supply it with substitute power from any other source of federal generation should the Water District wholly or partially recapture Hoover power from it; that about 26,000,000 kwhr per year should be available from the Parker-Davis Project; and that

the Government will install at its expense the necessary transformer bank at Davis Dam to supply it with service at 69,000 volts.

Revised Steam Power Contract

Applicant also represents that the Southern Nevada Power Company, supplier of power to the Colorado River Commission of Nevada which in turn had supplied the complete energy requirements for Needles from January 1, 1955, to May 1, 1958, insisted that the existing contract between applicant and the Colorado River Commission, and the existing contract between Southern Nevada Power Company and the Colorado River Commission, was a total requirements contract as respects the Needles circuit; that Southern Nevada Power Company maintained these contracts should be modified as, subsequent to May 1, 1958, Colorado River Commission and, in turn, Southern Nevada Power Company, would be supplying supplemental service only for the Needles circuit instead of the total load requirements; that in view of the fact that applicant will continue to require steam power, and the further fact that the Colorado River Commission and its supplier, Southern Nevada Power Company, are still required to furnish the total load requirements of the Needles circuit, if needed, a compromise was reached; that the terms of the compromise are set forth in a letter agreement dated June 5, 1958, which is Exhibit No. 6102-12 in this proceeding; and that under the terms of this agreement, the cost of purchased power to applicant was further reduced, based on a 1957 test year, by \$5,173, or an aggregate reduction of \$91,289 in cost of purchased power.

Applicant's Position

At the May 22, 1958, hearing applicant represented that the proposed rates would result in passing on to the ratepayers \$74,129 of the then estimated \$86,116 annual saving in cost of energy.

Applicant's Exhibit No. 6102-7 then showed that the revised rates would yield a rate of return of 6.12 per cent to applicant on the basis of the test year 1957. At the July 21, 1958, hearing, applicant submitted a revised exhibit (Exhibit No. 6102-7a) which showed that the added \$5,173 saving would increase its rate of return to 6.42 per cent.

Applicant takes the position that the reduced rates which it has filed are fair and reasonable to its electric customers, to its investors, and to the City of Needles; that in determining the reasonableness of rates in a rate proceeding, whether such proceeding involves a proposed increase or reduction of rates, consideration necessarily must be given to such components as revenues, expenses (including taxes and depreciation), rate base and fair rate of return; that the rate of return of 6.42 per cent or 6.50 per cent, if Commission staff data is adopted, is within the zone of reasonableness; that the fair rate of return which now should be allowed an electric utility property similar to the Needles Electric Department is not less than 6.75 per cent; that applicant is confronted with attrition in earnings owing to growth in plant not offset by commensurate increases in revenue caused by such items as the installation of a regulator at Searchlight at an approximate cost of \$65,000 and enlargement of the Bush Street substation at an approximate cost of \$35,000 in 1958; and that all of these factors, coupled with inflation, will result in a material decline in its rate of return in 1958 and subsequent years.

Earning Position

For the purpose of determining the effect of the proposed lower rates and reduced power expenses on its earning position, applicant used its recorded 1957 results and adjusted them to such new

expense and rate levels. The Commission staff made an independent study of applicant's 1957 operations and likewise adjusted them to the proposed expense and rate levels. The two estimates are compared in the tabulation following:

SUMMARY OF EARNINGS - NEEDLES ELECTRIC DEPARTMENT

<u>Item</u>	<u>Year 1957 As Record- ed by Applicant</u>	<u>Applicant's Adjusted Year 1957 Results</u>	<u>Staff's Adjusted Year 1957 Results</u>
<u>Operating Revenues</u>			
Electric Sales	\$424,708	\$357,697	\$357,697
Miscellaneous Sales	2,562	2,562	2,562
Total Operating Revenues	<u>\$427,270</u>	<u>\$360,259</u>	<u>\$360,259</u>
<u>Operating Expenses</u>			
Production	\$ 3,041	\$ 3,041	\$ 3,041
Power Purchase	200,858	109,569	109,393
Transmission	1,311	1,311	1,311
Distribution	28,413	28,413	28,413
Customers' Acctg. and Collect.	14,269	13,659	13,451
Sales Promotion	2,362	2,223	2,180
Administration and General	47,736	31,995	30,164
Wage Adjustment	-	3,659	3,659
Depreciation	32,716	31,867	31,739
Taxes, other than Income	32,162	30,432	30,355
Income Taxes (St. Line Basis)	23,950	48,751	50,119
Total Operating Expenses	<u>\$386,818</u>	<u>\$304,920</u>	<u>\$303,825</u>
<u>Net Revenues</u>	\$ 40,452	\$ 55,339	\$ 56,434
<u>Rate Base (Depreciated)</u>	\$903,682	\$861,721	\$867,885
<u>Rate of Return</u>	4.48%	6.42%	6.50%

Applicant did not contest the higher rate of return shown by the staff's study. The principal difference in the two adjusted results occurred in the item of Administrative and General Expense. The staff used a four-factor allocation method to allocate the San Francisco general office and Needles common plant, and decreased the recorded Needles direct legal expenses by \$7,400 to eliminate abnormal legal expenses occurring in 1957. Then an allowance of \$2,100 per year was made to spread the legal expenses connected with the

Hoover Dam power contract renewal over the duration of the hydro power contract plus \$300 for other average year legal expenses. The wage adjustment of \$3,659 represents the difference between the wages actually paid in 1957 and the amount at the wage levels in effect at the end of 1957.

Income Taxes

The staff's income tax allowance is higher than the applicant's owing to the fact that the net revenue on which the tax is figured is greater. Both the applicant and the staff used the straight-line method of computing depreciation for income tax purposes; however, the record indicates that the applicant has taken advantage of accelerated depreciation for accounts in 1956 and 1957. Applicant states that the deferred tax amount with accelerated depreciation and using the four-factor allocation method was \$2,368 in 1956 and \$2,943 in 1957. The staff has computed that if all of the deferred tax amount in 1957 had been passed on to the ratepayer (under the flow-through method) the rate of return would have been 6.84 per cent or 0.34 per cent higher than under the normalized basis.

The question as to whether or not utilities should use accelerated depreciation and what rate treatment should be accorded to accelerated depreciation tax accruals and reserves for deferred taxes is being investigated by the Commission under Case No. 6148. Until such case is decided, the applicant shall advise this Commission as to its election for the 1959 tax year with regard to accelerated depreciation by January 1, 1959, and yearly thereafter by January 1 of each year until a final decision of this Commission in Case No. 6148, and the Commission will promptly move to adjust rates herein authorized in such manner as may be found appropriate.

Rate Base

Applicant's rate base consists of certain intangible plant items, the Electric Department in Needles, a prorata of the Nevada-California Transmission Line, Needles common plant and general common plant, less depreciation reserves, and certain other items as enumerated below:

	<u>Recorded Plant</u>	<u>Depre- ciation Reserve</u>	<u>Net Plant</u>
<u>Intangible Plant (as of 12/31/57)</u>			
Organization	\$ 2,235	\$ -	\$ 2,235
Franchise	73	-	73
<u>Tangible Plant (as of 12/31/57)</u>			
Electric Department - Needles	832,567	143,724	688,843
Nevada-Calif. Trans. Line - Prorata	166,201	67,286	98,915
Needles Common Plant - Prorata	84,285	4,710	79,575
General Common Plant - Prorata	3,907	1,081	2,826
Total Plant (12/31/57)	<u>\$1,089,268</u>	<u>\$216,801</u>	<u>\$872,467</u>
<u>Adjustments (12/31/57)</u>			
Contributions in Aid of Construction			\$ 5,009
Customers' Advances for Construction			1,500
Non-operative Land - Trans. Plant			941
Total Adjustments (12/31/57)			<u>7,450</u>
Total Net Plant (12/31/57)			\$865,017
Total Net Plant (12/31/56)			\$801,842
Average Net Plant in Service, 1957			\$833,429
<u>Working Capital</u>			
Materials and Supplies (average)			\$ 28,025
Working Cash			267
Total Rate Base			\$861,721

The staff's rate base is \$6,164 or 0.7 per cent greater than the applicant's owing principally to a greater working cash allowance based upon a consideration of the working cash requirement and the amount available from monthly federal income tax accruals prior to tax payments. The staff states that if the voltage regulating transformer, which was placed in operation at Searchlight on

June 4, 1958, is assumed to be included in the 1957 rate base for the full year of 1957, its rate base would be increased by \$64,812 to a total of \$932,697.

Position of City of Needles

The position of the City of Needles with regard to the amount of the rate decrease and permanent electric rate levels briefly may be summarized as follows:

1. The ratepayers should be accorded relief commensurate with the estimated saving in energy cost;
2. The present ratepayers should not be saddled with the entire burden of the new voltage regulator at Searchlight;
3. The poor quality of service does not warrant use of the saving in energy cost as a lever for higher profit; and
4. The rate of return should not be increased above 5.75 per cent as authorized by Decision No. 51750 in 1955.

The city stated several reasons for its position in this matter which will be considered by the Commission in arriving at the findings and conclusions.

Quality of Service

Testimony by public witnesses and a city councilman indicates that wide variations in supply voltage have caused customers' equipment to operate improperly and, in some instances, have resulted in damage to the equipment.

In the 1955 rate proceeding in Application No. 36749 similar testimony was presented concerning voltage fluctuations of such a magnitude that the Commission, in Decision No. 51750, ordered applicant to submit a report covering wire sizes and circuit loadings and to advance plans for reduction of voltage fluctuations. This report was submitted and certain changes were made on applicant's

distribution system in an effort to improve voltage conditions. Despite the measures taken by applicant to improve service since 1955, including the installation of the voltage regulating transformer at Searchlight heretofore mentioned, the record in the instant proceeding indicates that the quality of service is in need of still further improvement.

Findings and Conclusions

After considering the evidence of record the Commission finds and concludes:

1. That there are some instances of high and low voltage; that the utility is aware of the situation and has taken certain steps to improve the situation; and that the installation of the voltage regulator at Searchlight was a part of this program which should be considered in determining the proper level of rates. However, the City of Needles objects to being saddled with the entire burden of this voltage regulator because it is over-capacity for present-day needs. Applicant's position is that it is uneconomic to provide a regulator of just sufficient capacity to handle today's load with no margin for growth. A reasonable compromise here is to adjust the rate base by \$55,000 of the \$64,812 additional amount the staff computed for the installed cost of this regulator.

2. That the staff's adjusted operating results, which we adopt for the purposes of this decision, after upward adjustment by \$55,000 in rate base and \$1,600 for depreciation expense and \$1,200 for ad valorem taxes for a portion of the Searchlight regulator, provide a fair basis for testing the reasonableness of applicant's interim rates, determining the permanent rates and amount of refund.

3. Applicant's request for an increase in rate of return from 5.75 per cent to 6.50 per cent plus an allowance for the effects of attrition and inflation in the Commission's opinion is not

supported by the evidence produced by the applicant and quality of service being rendered. By allowing for a sizeable portion of the Searchlight regulator, attrition in rate of return should be offset to the point where the growth in load reasonably should counteract the other factors. Applicant did not produce a rate of return estimate for the first 12 months after these improvements are in service to substantiate its representations regarding attrition, or to show that the measures adopted herein will not adequately offset the effects of attrition in rate of return.

4. That on the basis of the adopted 1957 adjusted operating results, as adjusted to yield a 5.75 per cent rate of return, which we hereby find to be reasonable, the revenues should be lowered to the extent of \$4,700 annually or by 1.3 per cent and rates different than those provided on the interim basis should be authorized. Such reduced rates we hereby find to be reasonable on and after May 1, 1958. An amount should be refunded to customers for overcharges during the interim period of May 1, 1958, to December 31, 1958, by means of a credit at the rate of 0.36 cents per kwhr on the January, 1959, bills for domestic and commercial lighting customers.

5. That the interim rates now in effect, as revised by Appendix "A" attached hereto, are fair and reasonable.

6. That the utility has made some attempt to correct the voltage situation, but has not reasonably discharged its public duty in this regard. Applicant will be required to undertake a comprehensive study of voltage supply conditions, submit periodic reports to the Commission, and develop and carry out plans for improving voltage and service conditions.

In the Commission's opinion the above findings and conclusions give due recognition to the position taken by the City of Needles and provide an equitable settlement of this matter, as applied both to the ratepayers of the utility and the utility itself.

ORDER ON REOPENING

California Pacific Utilities Company having filed revised rates for its Needles Electric Department by tariff sheets Nos. Cal. P.U.C. 287-E to 294-E inclusive, and the Commission having authorized such schedules on an interim, temporary and provisional basis; investigation of the level of such rates having been conducted under Case No. 6102 and Application No. 36749 as reopened; public hearings having been held; the matter having been submitted and the Commission being fully informed and having found that rates lower than the interim rates are justified for certain tariff schedules; therefore,

IT IS ORDERED that:

1. Applicant is authorized and directed to file in quadruplicate with this Commission after the effective date of this order, in conformity with General Order No. 96, revised tariff schedules with changes in rates, terms, conditions and rules as set forth in Appendix A attached hereto and, upon not less than one day's notice to this Commission and to the public, to make said rates effective for service rendered on and after January 1, 1959.

2. Applicant shall refund in its January 1959 bills an amount equal to 0.36 cents per kwhr sales by credits to each domestic and commercial lighting bill based upon usage indicated on the bills to offset excess charges levied under the interim rates.

3. Applicant shall, within sixty days of the effective date of this order and for a period of eighteen months, test and install the necessary metering equipment to obtain a continuous record of

(a) the transmission input voltage at one or more of the three substations in Needles, (b) the regulated bus voltage at the Bush Street and "I" Street substations, (c) the input voltages to each distribution circuit at the Needles Substation.

4. Applicant shall, within fifteen days after the effective date of this order, install a minimum of four portable recording voltmeters at various points on the distribution system. These meters are to be tested, installed, and rotated in accordance with a plan to be developed in co-operation with Commission staff engineers.

5. Applicant shall submit to the Commission verified monthly reports of all electric service disturbances and/or outages and the details of each electric service complaint, both oral and written, received during the month for a period of eighteen months.

6. Applicant shall submit verified quarterly reports evaluating the data prepared pursuant to ordering paragraphs 3 through 5 above, including a summary of the range of recorded voltages and maximum demands at each substation on a monthly basis together with a description of system improvements made during the quarter and plans for further improvement where indicated as desirable. Such plans shall include plant facilities required, estimates of costs and completion dates.

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

Dated at Los Angeles, California, this 9th day of December, 1958.

[Signature]
President
[Signature]
[Signature]
[Signature]
Commissioners

APPENDIX A

Changes in applicant's presently effective rates, rules and conditions are authorized as set forth in this appendix:

SCHEDULE D-1-N

(a) Insert the following rates:

<u>Service Charge:</u>	Per meter per month	75c
<u>Energy Charge</u>	(to be added to Service Charge):	
First	40 kwhr per meter per month	4.3c per kwhr
Next	60 kwhr per meter per month	3.2c per kwhr
Next	100 kwhr per meter per month	2.4c per kwhr
All excess	kwhr per meter per month	1.2c per kwhr

SCHEDULE L-1-N

(b) Insert the following rates:

<u>Service Charge:</u>	Per meter per month	75c
<u>Energy Charge</u>	(to be added to Service Charge):	
First	50 kwhr per meter per month	4.7c per kwhr
Next	150 kwhr per meter per month	4.2c per kwhr
Next	200 kwhr per meter per month	3.8c per kwhr
Next	600 kwhr per meter per month	3.2c per kwhr
Next	1,000 kwhr per meter per month	2.2c per kwhr
All excess	kwhr per meter per month	1.3c per kwhr

APPENDIX B

LIST OF APPEARANCES

For Applicant: Orrick, Dahlquist, Harrington & Sutcliffe by Warren A. Palmer.

Interested Parties: City of Needles by John W. Holmes, and San Bernardino Sun by Louise T. Corey.

Protestants Appearing Originally on Application No. 36749:
City of Needles by Winston A. Gilchrist, Paul A. Fowler, Joe McIntyre, William A. Claypool, III, and H. L. Smith; a community group by Huey M. O'Dell; Brotherhood of Locomotive, Firemen & Engineers by Kevin Hall.
In propria Persona: James L. Lucas, K. Wendell Sneed.

For the Commission Staff: John J. Doran, Jr., and Carol T. Coffey.

LIST OF WITNESSES

Evidence was presented on behalf of the applicant by Elmer Kime, D. J. Ley, Lloyd E. Cooper, Earl M. Kennard.

Evidence was presented on behalf of the protestants and interested parties by William Claypool, Joe McIntyre, H. L. Smith, Harold T. Timmons, Alfred A. Paggi, Mrs. O. E. Hardin, A. L. Huber, L. E. Connolly, Don Kenner, and James L. Lucas.

Evidence was presented on behalf of the Commission Staff by George C. Doran, Harold T. Sipe, Park L. Boneysteele and Kenneth J. Hedstrom.