

ORIGINAL

Decision No. 60949

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
the Public Utilities Code to increase
its rates and charges.

} Application No. 42209

Brobeck, Phleger & Harrison, by George D. Rives and
Gordon E. Davis, for applicant.
David H. McClintock, for City of Dunsmuir, Howard K. Cramer,
for National Federation of Federal Employees, Local 1307,
protestants.
William L. Knecht, for California Farm Bureau Federation,
interested party.
Elmer Sjostrom and Robert W. Beardslee, for the Commission
staff.

O P I N I O N

Applicant's Request

The California Oregon Power Company filed this application on May 26, 1960, requesting authority to increase its rates and charges for residential electric service provided in northern California by approximately \$267,000 annually, or by about twelve percent of revenues from residential service at the 1959 level of business.

Public Hearing

Duly noticed public hearing in this application was held before Commissioner Theodore H. Jenner and Examiner James F. Haley at Yreka on July 21, 1960, and the matter was submitted.

Applicant's Operations

Applicant is a California corporation engaged in the production, transmission, distribution, and sale of electricity for domestic, commercial, industrial, agricultural, and municipal purposes in northern California and southern Oregon. Its transmission system

is interconnected and supplies distribution systems serving 44 communities and adjacent rural areas in Oregon and 28 communities and adjacent rural areas in Del Norte, Modoc, Shasta, Siskiyou, and Trinity Counties in California. At the end of 1959, applicant was providing service to 91,585 retail customers, 20,220 of which were in California. Applicant owns and operates 21 hydroelectric plants having a total rated capacity of 367,263 kilowatts.

Applicant's Position

Applicant's last rate increase in California was authorized by this Commission in Decision No. 49417, dated December 11, 1953, in Application No. 34349, and became effective January 1, 1954.

Applicant's last rate increase in Oregon was granted by the Public Utilities Commissioner of that state on December 11, 1953, by Order No. 32718 in Docket No. U-F-1749, and became effective December 15, 1953. According to applicant, it has experienced substantial growth in system load since 1953, requiring major high cost additions to plant. Average net plant investment per customer for 1953 was \$1,004; for 1959 it was \$1,652. In addition to increased unit costs of plant additions and replacements, applicant states that it has been necessary to pay increased costs for the labor and materials required in its electric utility operations. A witness for applicant testified that average wage rates paid by applicant have increased 29% since 1953. Applicant represents that the combined effect of the increased unit costs of capital additions and increased operating costs has resulted in a continuing decline in its rate of return during the years 1956 through 1959.

Applicant contends that its presently effective rates for California and for its system as a whole are inadequate to provide it with a fair and reasonable rate of return and will not be sufficient to maintain its financial integrity and its credit standing.

In order to improve its earnings position applicant seeks authority to increase, to the levels shown in Exhibit "C" of the application, its rates for electric service provided in California under its Schedule No. 10, Residential Service. Applicant specifically requests system-wide rates, and it has proposed identical rate schedule revisions for its residential electric service in Oregon. Applicant's proposals as pending herein and as pending before the Public Utilities Commissioner of Oregon under Docket No. U-F-2245 would preserve the so-called "postage-stamp" or uniform rate pattern which is now in effect throughout applicant's system and which results in the same classes of customers in California and Oregon paying identical rates for electric service.

On an average year, company-wide basis, applicant seeks a total revenue increase, at the 1959 level of business, of \$1,280,675, of which \$1,013,572 would come from Oregon customers and \$267,103 from California customers. Applicant asserts that, although such increased revenues would not produce the return to which it is reasonably entitled, it does not now desire to increase its rates by amounts greater than proposed herein. Applicant estimates that the proposed rate increase would generate sufficient revenues to produce a rate of return for 1959, as adjusted for normal conditions, of 4.14 percent on its California operations and 5.16 percent on its total system operations.

The proposed rate increase affects all of applicant's customers served under its Schedule No. 10. It is applicant's position that obtaining the total rate increase sought herein from the residential class of customer is just and equitable and that any other means of spreading the requested revenue increase among its other classes of customers would tend to inhibit the economic growth of its service area. Applicant states that consideration of the need for greater

commercial and industrial activity in its service area is also a material factor in its decision not to seek at this time a greater rate increase than proposed herein.

Positions of the Parties

California Farm Bureau Federation, while not opposing the granting of the application, in effect questions the desirability of placing the entire increase on the residential class of customers. The City of Dunsmuir and the National Federation of Federal Employees, Local 1307, oppose the proposed increase.

The Commission staff takes the position that applicant has not fully shown the necessity or desirability of applying all of the proposed increase to the residential class. The staff points out that the record does not confirm applicant's assertions as to which class of customer bore the larger portion of the 1953 general rate increase. It is the staff's contention that, in the absence of evidence to the contrary, it must be assumed that the present relationship among rates for the various classes of service is reasonable and that, if the company is justified in receiving increased rates, such increase should be applied equitably among the classes of service.

The staff states that it applied its usual adjustments to expenses for rate fixing purposes and that such adjustments do not materially increase the indicated rate of return on applicant's California operations.

Nature of Evidence

Applicant's presentation consisted in placing in evidence seven exhibits supported by the testimony of five witnesses. The subject matter of applicant's showing included a description of its system, results of applicant's operations, the method employed in separating such operations between California and Oregon, the effect of the proposed rates, and evidence relating to required rate of return. The Commission staff, in addition to participating in cross-

examination of applicant's witnesses, made an affirmative presentation on the results of its examination of the company's accounting records and the recorded data contained in the exhibits presented by the applicant.

The evidence shows that applicant is experiencing a continuing decline in rate of return. Applicant's Exhibit No. 3 shows its earnings results for the years 1957, 1958 and 1959 to be as follows:

TOTAL SYSTEM RECORDED OPERATIONS.

	1957	1958	1959
Operating Revenues	\$ 22,733,827	\$ 21,751,514	\$ 23,779,433
Operating Expenses	<u>16,119,603</u>	<u>14,920,374</u>	<u>16,624,834</u>
Net Revenue	\$ 6,614,224	\$ 6,831,140	\$ 7,154,599
Rate Base	\$128,875,383	\$135,679,307	\$150,652,861
Rate of Return	5.13%	5.03%	4.75%

Exhibit No. 3 also shows applicant's results of operations for the year 1959 on an adjusted basis. Applicant states that the adjustments it made to place the year 1959 on a normal basis included: elimination of discontinued sales to Eugene Water and Electric Board and Portland General Electric Company; increases in sales to Reynolds Metals Company; average water conditions; normalization of the effects of employing accelerated amortization of emergency facilities for income tax purposes; and full year effect of the wage increase of July 1, 1959. Applicant made no adjustment for the wage increase which became effective July 1, 1960, and which would amount to \$197,000 on a system basis if reflected in operations for the test year 1959. Applicant states that no adjustment for average temperature conditions was necessary for the reason that the year 1959 was a normal year with respect to temperature.

Applicant's entire electric system is operated as an integrated whole, undivided by the boundary between California and Oregon. Because of the division in regulatory jurisdiction created by the boundary, applicant presented a study separating revenues, operating expenses and rate base between the two states. Applicant represents that the separation was made on a geographic basis wherever individual items could properly be related to one state or the other, and that, as appropriate other items were allocated either on the basis of the respective demands placed upon the system by the two states or on the basis of comparative kilowatt hour sales in each state.

Applicant's separated results of operations for the adjusted year 1959, as summarized from Exhibit No. 3, are shown at present and proposed rates in the tabulation below:

SEPARATED RESULTS OF OPERATIONS
ADJUSTED YEAR 1959

	<u>California</u>	<u>Oregon</u>	<u>Total System</u>
<u>At Present Rates</u>			
Operating Revenues	\$ 5,362,076	\$ 18,519,117	\$ 23,881,193
Operating Expenses	3,994,479	12,692,030	16,686,509
Net Revenue	\$ 1,367,597	\$ 5,827,087	\$ 7,194,684
Rate Base	\$36,091,720	\$114,567,997	\$150,659,717
Rate of Return	3.79%	5.09%	4.78%
<u>At Proposed Rates</u>			
Operating Revenues	\$ 5,629,179	\$ 19,532,689	\$ 25,161,868
Operating Expenses	4,134,228	13,259,181	17,393,409
Net Revenue	\$ 1,494,951	\$ 6,273,508	\$ 7,768,459
Rate Base	\$36,091,720	\$114,567,997	\$150,659,717
Rate of Return	4.14%	5.48%	5.16%

Findings and Conclusions

The evidence shows conclusively that applicant's operations are producing a low and declining rate of return and that its earnings position must be improved in order to avoid impairment of its credit.

In using the separated earnings results shown above for purposes of this proceeding, the Commission is neither approving or disapproving the separation methods employed. Nor is the Commission passing upon applicant's treatment of the effect of employing accelerated amortization for income tax purposes. The Commission finds and concludes, however, that applicant is entitled to and needs rate relief in the amount requested and that such amount will not produce more than a reasonable rate of return after making due allowance for any appropriate adjustments to separation factors and to income tax effects.

The record does not support applicant's contention that the entire requested amount of the rate increase should be borne by the residential class of customer. So that the increase may apply more equitably among the major classes of customers, the order herein will authorize rates which will spread to the general service schedule, under which the commercial and industrial classes are served, approximately \$62,000 of the total requested increase of \$267,000. This will amount to an average increase of about three percent for the general service customer and about nine percent for the residential service customer.

This Commission takes official notice of Order No. 37396, dated September 20, 1960, in Docket No. U-F-2245, before the Public Utilities Commissioner of Oregon. To permit applicant, as it specifically requests herein, to continue to apply a uniform rate pattern throughout its system, the order will provide, among other things, for the following changes in applicant's tariff schedules:

1. Withdrawal of Schedule No. 11 and transfer of flat rate residential water heating customers now served thereunder to Schedule No. 10.
2. Transfer of auto camp customers now served under Special Condition 4, Schedule No. 10 to Schedule No. 30.

The Commission has carefully weighed all of the evidence of record. The action we are taking herein will produce an over-all result which will be fair and reasonable. We find, therefore, that the increases in rates and charges authorized herein are justified, that the rates and charges authorized herein are reasonable, and that the present rates and charges, insofar as they differ from those herein prescribed, are for the future unjust and unreasonable.

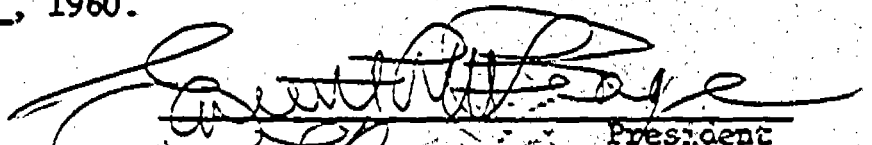
ORDER

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 having been held, the matter having been submitted and now being ready for decision,

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 schedule of rates and charges set forth in Appendix A attached to this order, and upon not less than five days' notice to the public and to this Commission, to make said rates and charges effective for service rendered on and after November 20, 1960.

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

Dated at San Francisco, California, this 25th day of OCTOBER, 1960.



President



Lyn Fox

Commissioner... Theodore H. Jenner, being necessarily absent, did not participate in the disposition of this proceeding.

APPENDIX A

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

Schedule No. 10

RESIDENTIAL SERVICE

RATES

	<u>Per Meter</u> <u>Per Month</u>
Energy Charge:	
First 60 kwhr, per kwhr	4.4c
Next 90 kwhr, per kwhr	3.3c
Next 150 kwhr, per kwhr	1.9c
Over 300 kwhr, per kwhr	1.2c
Minimum Charge	\$2.00

SPECIAL CONDITIONS

4. Delete

Schedule No. 11

DOMESTIC WATER HEATING SERVICE
(No New Service)

Cancel this schedule.

Schedule No. 30

GENERAL SERVICE

RATES

	<u>Per Meter</u> <u>Per Month</u>
Demand Charge:	
First 20 kw of Billing Demand, per kw	No charge
Excess kw of Billing Demand, per kw	60c
Energy Charge:	
First 60 kwhr, per kwhr	4.40c
Next 90 kwhr, per kwhr	3.90c
Next 2,850 kwhr, per kwhr	2.80c
Next 7,000 kwhr, per kwhr	1.90c
Next 50,000 kwhr, per kwhr	1.00c
Next 50,000 kwhr, per kwhr	0.65c
Excess kwhr, per kwhr	0.60c
Minimum Charge: The amount of the Demand Charge per meter per month, but in no event less than:	
\$2.00 per meter per month for single-phase service	
\$8.00 per meter per month for three-phase service	

SPECIAL CONDITIONS

3. Delete