

ORIGINAL

Decision No. 41092

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA WATER SERVICE COMPANY, a
corporation, for an order authorizing
it to increase rates charged for water
service in the City of Dixon and
vicinity.

Application No. 28617

McCutchen, Thomas, Matthew, Griffiths & Greene,
by Robert Minge Brown, for Applicant.

Hans Rohwer, Mayor, and Ralph Moss, for City of
Dixon.

O P I N I O N

Applicant, California Water Service Company, a corporation, is engaged in the public utility water business in several cities and towns in California, including the City of Dixon, Solano County, in which locality the utility's system supplies water for domestic, commercial, industrial and municipal purposes.

In this proceeding the Company alleges that the rates now being charged for water service in its Dixon district, which were originally established for its predecessor in 1915 and which have not been changed since that date, are no longer adequate to produce sufficient earnings to support the present investment after providing for operating and maintenance expenses, taxes and depreciation. The Company further alleges that substantial capital additions and replacements to its Dixon system are being made and must be made in the near future, which additional capital requirements have been accompanied by materially increased costs of doing business without a corresponding increase in operating revenues, thus resulting in declining net income. Wherefore the Commission is requested to increase its rates for water service rendered by its Dixon water system in conformity with the proposed schedule of rates set forth in the application.

Public hearings in this matter were held in Dixon and in San Francisco before Examiner Stava.

The water supply for the City of Dixon and vicinity is obtained at present from two drilled wells, with a third one contemplated to be added in the very near future. Electrically-driven pumps deliver the water into the mains which are connected to a 75,000-gallon elevated steel storage tank and to a distribution system, the latter, as of December 31, 1946, comprising 43,885 feet of pipe varying in size from three-fourths of an inch to eight inches in diameter. At the end of 1946 there were 522 active service connections.

All water is sold at meter rates, except for fire protection. The fire hydrants are owned by the City of Dixon and serviced with water by the Company at a flat rate of \$60.00 per month regardless of the number of fire hydrants served. The only other flat rates now applied by the Company are those for private automatic fire sprinkler service, presently involving a single customer. Applicant has not requested any change in the rates for either of these services. A formerly authorized schedule of flat rates, applicable to residential, commercial and other purposes, is no longer used by the Company and request is made for its withdrawal.

The schedule of meter rates presently in effect, established prior to the enactment of the Public Utilities Act, provides for an allowance of 500 cubic feet of water at a minimum monthly charge of \$1.00, with charges for additional use reduced successively through two blocks to 7½ cents per 100 cubic feet for all use over 2,700 cubic feet per month. The Company asks that a schedule of rates be established that will provide for a minimum monthly charge of \$1.25 with an allowance of 500 cubic feet of water, the charges for additional use being reduced successively through three blocks to 9 cents per 100 cubic feet for all use over 30,000 cubic feet per month.

Testimony for the Company was presented by three of its officials, Messrs. George L. Williams, H. A. Harris and Fred L. Dodge. A report on the results of operation of the Company's Dixon district was also introduced in

evidence, representing the coordinated effort of the Hydraulic, Research and Valuation Divisions of the Commission's Public Utilities Department. In both sets of evidence, the records of this portion of the Company's operations were reviewed for the past several years and carefully analyzed for the year 1946, from which estimates of operating revenues, maintenance and operating expenses, taxes and depreciation were made for the years 1947 and 1948. Estimates of future revenues were based on the actual water use in 1946 with careful consideration of the effects of the relatively dry year of 1947 and taking into account the expected increase in the number of consumers in the various classifications. In the estimates of expenses for the future, due cognizance was given to the increased costs of materials and to the Company's recent experience concerning upward wage and salary adjustments, although no allowance was made for any further wage increases in 1948 over those in effect for 1947. The important elements of this testimony will be tabulated subsequently in this opinion.

The fixed capital in service now shown on the books of the California Water Service Company reflects the Commission engineers' historical cost appraisal as of January 1, 1927, plus subsequent additions. A review was made by engineers of the Commission's staff of the net additions from the date of acquisition, and the adjusted book capital, with allowances for material and supplies and working cash, comprises the rate bases for the year 1946 and the estimated years 1947 and 1948.

As a result of a study made in 1937 by engineers of this Commission, the Company adjusted its depreciation reserve as of December 31, 1936, and subsequently used the 5 per cent sinking fund composite depreciation rates developed in that study. These composite rates, when applied to the end-of-year depreciable capital segregated to certain classes, developed separate over-all composite rates which were applied during the succeeding year to each of the Company's properties. By a continuation of this procedure, the Company's reserve for depreciation for its Dixon properties, exclusive of the prorate of the San Jose general office reserve, amounted to \$62,360 as of December 31, 1946, same being 60.6 per cent of the depreciable capital.

In connection with the current proceeding, the Commission staff's engineers reviewed the lives used in the development of the Company's composite annuity rates and certain changes were made in the estimated lives after giving consideration to the present ages and life expectancies of the properties. The application of the revised rates materially reduces the depreciation expense. Estimated reserve requirements for the years 1946, 1947 and 1948 were computed by the Commission's engineers, based on the age and life assumptions used in developing the annuity rates. The Company was in agreement with these annuity rates and reserve requirements. The following tabulation sets forth the staff's resulting figures for the years mentioned, which includes amounts applicable to the prorate of the San Jose general office capital.

<u>Year</u>	<u>Annuities</u>	<u>End-of-Year Reserve Requirements</u>
1946	\$1,070	\$40,384
1947 Estimated	1,160	40,962
1948 Estimated	1,270	42,831

The development of the results of operation, summarized from the exhibits introduced in evidence by the Company representatives and by the Commission staff's engineers, is shown in the following tabulation:

Item	At Present Rates			At-Proposed Rates	
	Recorded		Estimated by	Estimated Year 1948	
	Year	C.P.U.C. Staff	C.P.U.C. Staff	C.P.U.C. Staff	C.W.S. Company
	1946	1947	1948	Staff	Company
Total Operating Revenues	\$16,340	\$17,224	\$18,031	\$23,751	\$22,545
<u>Expenses:</u>					
Operating & Maintenance ⁽¹⁾	7,523	7,933	8,329	8,329	8,335
General & Miscellaneous ⁽²⁾	1,321	1,460	1,533	1,533	1,625
Sub-total	8,844	9,393	9,862	9,862	9,960
Taxes (incl. Federal Inc.)	2,062	2,307	2,410	4,705	3,959
5% S.F. Depreciation Annuity	1,618	1,160	1,270	1,270	1,270
Amortization Franch. etc.	24	310	24	24	-
Total Expenses	12,548	13,170	13,566	15,861	15,189
Net Operating Revenues	3,792	4,054	4,465	7,890	7,356
Average Rate Base		121,600	133,200	133,200	133,524
Rate of Return	3.5% ⁽³⁾	3.33%	3.35%	5.92%	5.50%

Notes: (1) - Account Nos. 1 to 35, inclusive.

(2) - Account Nos. 26 to 47, inclusive.

(3) - Per Cent, Net Operating Revenues to Fixed Capital (\$108,759) as of December 31, 1946. If computed on basis of \$11,706 expenses as adjusted by C.P.U.C. staff and net revenue of \$4,634 on its average rate base of \$110,200, the rate of return would be 4.21%.

The foregoing summary shows that the rates of return as estimated by the Company are substantially in agreement with those estimated by the Commission's engineering staff. Both sets of figures show that the rates proposed by the Company would increase the over-all gross revenues an average of about 31.5 per cent over those which could be produced under the rate schedules now in effect. The tabulation also indicates that the present rates cannot render an adequate return to the Company under conditions existing and anticipated for the immediate future, while the proposed rates may be expected to produce just and reasonable earnings from this portion of the Company's operations.

A careful analysis of the rate structure proposed by the Company discloses that while it deviates from the present structure by making a greater proportionate increase in charges for the larger monthly water quantities consumed, it has been devised in an effort to allocate the charges for water sold

as equitably as possible in accordance with the segregations as to fixed costs of supply and distribution, costs varying directly with water quantities, customer costs, and general administration costs. Therefore, the schedule of rates and charges as proposed by the Company will be authorized in the Order following this Opinion, with the exception that minor changes will be made in the monthly minimum charges in order to make them more consistent with each other as to the various sizes of meters listed.

Questions were raised by representatives of the City of Dixon and its inhabitants as to the adequacy of the Company's system to supply water at satisfactory pressures at all times, particularly in certain sections of the service area. It appears that in some cases, at least, it has been necessary to install larger service pipes and meters to supply the premises of residential consumers in order to furnish water at satisfactory pressures under conditions of peak demand. With the institution of minimum charges for the various sizes of meters, this might result in exorbitant charges for the amount of water delivered, particularly in those months when irrigation of lawns and gardens is unnecessary and water is used only for household purposes. The testimony of the Company's representatives was to the effect that the program of enlarging the mains, which was deferred by the scarcity of materials and labor during the war period but which has been underway since late in 1946 and during 1947, will be actively pursued until reasonably satisfactory pressures can be maintained at all times on all parts of the distribution system. The construction of a third pumping plant at a location some distance from the existing units, now planned for 1948 or 1949, should further increase the reliability of supply and adequate pressures.

In reference to the recognition of varying water deliveries through scaled minimum charges, all customers affected thereby should be appropriately advised as to the change and their rights to have their meter installation changed to the desired capacity.

O R D E R

Application as entitled above having been filed with the Public Utilities Commission of the State of California, public hearings having been held thereon, the matter having been duly submitted and the Commission now being fully advised in the premises,

IT IS HEREBY FOUND AS A FACT that the rates now charged by California Water Service Company, a corporation, for water supplied to its customers in the City of Dixon, Solano County, and in the vicinity thereof, are unjust and unreasonable in so far as they differ from the rates established herein; that the rates herein established are just and reasonable rates to be charged for the service to be rendered; that the increase in rates authorized by this decision is hereby found to be justified; and, basing its Order upon the foregoing findings of fact and upon further statements of fact contained in the Opinion which precedes this Order,

IT IS HEREBY ORDERED that California Water Service Company, a corporation, be and it is hereby authorized to file in quadruplicate with the Public Utilities Commission of the State of California, in conformity with the Commission's General Order No. 96, within thirty (30) days from the date of this Order, the following schedule of rates to be charged for all water service rendered on and after the first day of February, 1948, to its customers in and in the vicinity of the City of Dixon, Solano County:

Schedule No. 1

GENERAL METERED SERVICE

Applicability:

Applicable to all water service furnished on a metered basis.

Territory:

In the City of Dixon, Solano County, and in the vicinity thereof.

Rates:

Per Meter
Per Month

Quantity Rates:

For first	500 cubic feet, or less	\$1.25
For next	2,500 cubic feet, per 100 cubic feet	.18
For next	27,000 cubic feet, per 100 cubic feet	.135
For all over	30,000 cubic feet, per 100 cubic feet	.09

Minimum Charge:

For 5/8-inch meter	\$1.25
For 3/4-inch meter	2.00
For 1-inch meter	3.00
For 1 1/2-inch meter	5.00
For 2-inch meter	8.00
For 3-inch meter	15.00
For 4-inch meter	25.00
For 6-inch meter	50.00

The Minimum Charge will entitle the consumer to the quantity of water which that monthly minimum charge will purchase at the Quantity Rates.

IT IS HEREBY FURTHER ORDERED that the schedule of flat rates heretofore filed by the California Water Service Company for unmeasured water service rendered to its customers in the City of Dixon, Solano County, and in the vicinity thereof, and no part of which schedule has been applied for several years past, shall be cancelled by appropriate tariff filing coincident with the filing of the above schedule; however, this portion of the Order shall in nowise affect the presently filed and effective rates applicable to the water supply service to municipal fire hydrants of the City of Dixon nor for private automatic fire sprinkler service, which schedules are hereby continued in effect.

The effective date of this Order shall be twenty (20) days from and after the date hereof.

Dated at San Francisco, California, this 6th day of
January, 1948.

Harold P. Hule

Justin F. Coe

James H. Hule

R. F. Underman

Kenneth Potter

Commissioners.