

Decision No. 41107

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 Willows and
vicinity.

ORIGINAL

Application No. 28664

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

H. O. Schnurbusch, for Fire Department, City of Willows.

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 Willows, Glenn 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 Willows district are no longer adequate to produce sufficient earnings to support the present investment after providing for operating and maintenance expenses, taxes and depreciation. The existing rates were originally established for the Company's predecessor in 1916 and have not been changed since that date, except for a slight reduction in the metered rates for large consumptions of water, filed by the Company in 1928, and a new filing made in 1941 in order to simplify the flat rate schedule. The Company further alleges that substantial capital additions and replacements to its Willows 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 Willows water system in conformity with the proposed schedule set forth in the application.

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

The water supply for the City of Willows and vicinity is obtained from three drilled wells. Electrically-driven pumps deliver the water into the mains which are connected to a 100,000-gallon elevated steel storage tank and to the distribution system which, as of December 31, 1946, comprised 91,749 feet of pipe varying in size from three-fourths of an inch to twelve inches in diameter. At the end of 1946 there were 944 active service connections.

Over fifty per cent of the water delivered is sold at metered rates to residential, commercial, industrial and municipal consumers. However, any domestic consumer may be served without a meter at an optional flat rate and nearly half of the residential consumers are now being served at flat rates. A formerly authorized schedule of flat rates applicable to all classes of use, still virtually in effect but no longer used by the Company, is sought to be eliminated as one result of this proceeding. Other flat rate service is rendered for fire protection, for which the Company has not requested any increase in rates. The fire hydrants in the City of Willows, now numbering 96, are owned by the Company and are served with water at a general charge to the municipality at \$90.00 per month, plus an additional monthly charge of fifty cents per hydrant. At present there is no customer of this system using the private automatic fire sprinkler service, flat rates for which are on file and in effect.

The flat rates provide for a basic charge of \$1.25 per month for domestic service. The meter rates provide for a \$1.00 minimum monthly charge with an allowance of 500 cubic feet of water, the charges for additional use being reduced successively through three blocks to 7 cents per 100 cubic feet for all use over 40,000 cubic feet per month. The Company asks that a schedule of rates be established that will provide a basic flat rate charge of \$1.85 per month for

domestic service, and a minimum monthly meter 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 11 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 Willows 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 materials 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 Willows properties, exclusive of the prorate of the San Jose general office reserve, amounted to \$78,291 as of December 31, 1946, same being 35.9 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 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	\$1,875	\$69,449
1947 Estimated	1,940	72,970
1948 Estimated	2,070	77,130

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.	C.W.S.
	1946	1947	1948	Staff	Company
<u>Operating Revenues:</u>					
Flat Rate - Domestic	\$ 8,990	\$10,886	\$12,782	\$19,045	\$19,058
Flat Rate - Municipal	1,639	1,656	1,668	1,668	1,660
Metered - Domestic	8,411	8,529	8,647	10,626	10,285
Metered - Commercial	7,341	8,602	8,875	12,097	10,298
Metered - Municipal	1,623	1,688	1,758	2,529	2,465
Miscellaneous	7	10	10	10	10
Total Revenues	28,011	31,371	33,740	45,975	43,776
<u>Expenses:</u>					
Operating & Maintenance(1)	11,986	13,798	14,488	14,488	14,495
General & Miscellaneous(2)	2,647	3,050	3,203	3,203	3,400
Sub-total	14,633	16,848	17,691	17,691	17,895
Taxes (incl. Federal Inc.)	3,998	4,845	5,797	10,705	8,969
5% S.F. Depr. Annuity	2,257	1,940	2,070	2,070	2,070
Amortization Franch, etc.	-	287	288	288	-
Total Expenses	20,888	23,920	25,846	30,754	28,934
Net Operating Revenues	7,123	7,451	7,894	15,221	14,842
Average Rate Base	228,406 ⁽³⁾	238,600	252,700	252,700	252,743
Rate of Return	3.12% ⁽³⁾	3.12%	3.12%	6.02%	5.87%

- Notes: (1) - Account Nos. 1 to 35, inclusive.
 (2) - Account Nos. 26 to 47, inclusive.
 (3) - Computed on Company's Average Invested Capital.
 If computed on basis of \$20,258 expenses, as
 adjusted by C.P.U.C. Staff and net revenue of
 \$7,753 on its average rate base of \$227,400,
 the rate of return would be 3.41%.

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 35.5 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. Furthermore, it is evident that an attempt has been made to apportion the charges for water sold, as between the flat rate and measured rate consumer, on a sounder basis for the proposed rates than appears to have been the case in the existing rate structure. It may be noted that the average increase in rates for the flat rate residential consumers is about 49 per cent while the average increased gross revenue for all classifications resulting from the proposed change in metered rates is in the neighborhood of 30 per cent. It is believed that this will tend to spread the burden of costs more fairly commensurate with the actual use of water between the two major groups of users. The evidence points to the fact that the proposed flat rates for sprinkling or garden irrigation are still relatively low for the probable quantities of water delivered for such purposes. However, the data available in this proceeding pertaining to this phase of the Company's operations is considered insufficient to make a more definite determination as to more exact rates for the watering of lawns and gardens. 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 meter charges in order to make them more consistent with each other as to the various sizes of meters listed. 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 installations changed to the desired capacity.

The only interest in the proceeding shown by representatives of the City of Willows or its inhabitants was that evidenced by H. O. Schnurbusch, as Chief of the Willows Fire Department. His testimony was based on a report, dated January, 1946, rendered by the Board of Fire Underwriters of the Pacific which included certain fire flow tests made in December, 1945. The tenor of his remarks was the desirability of a more rapidly executed program of installing larger mains, particularly in the mercantile district and built-up portions of the city, and the needed replacement of many existing wharf-type fire hydrants with others of modern and standard design. The testimony of the Company's representatives was to the effect that the construction program, which was deferred by the scarcity of materials and labor during the war period, was resumed in the latter part of 1945, actively carried out during 1946 and 1947, and will be continued in 1948. In the process of replacing small mains with piping of larger size, recognition was given to the report of the Board of Fire Underwriters so as to correlate the program with the recommendations contained in the report. The Company submitted in evidence the results of fire flow tests made December 1, 1947, which indicate a considerable improvement in the residual pressures at most of the locations listed in the earlier tests. The Company further testified to the effect that its policy will be to actively pursue the program of construction and replacement until reasonably satisfactory pressures can be maintained at all times on all parts of the distribution system, and also to replace the wharf-type hydrants with others of suitable design at the rate of about five per year.

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 Willows, Glenn 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 schedules 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 Willows, Glenn County:

Schedule No. 1

GENERAL METERED SERVICE

Applicability:

Applicable to all water service furnished on a metered basis.

Territory:

In the City of Willows, Glenn 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 feet22
For next	27,000 cubic feet, per 100 cubic feet16
For all over	30,000 cubic feet, per 100 cubic feet11

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.

Schedule No. 2

DOMESTIC FLAT RATE SERVICE

Applicability:

Applicable to all unmeasured water service rendered to domestic, or residential, consumers.

Territory:

In the City of Willows, Glenn County, and in the vicinity thereof.

Rates:

Monthly Charge

For each residence of five rooms or less	\$1.85
For each additional room over five15
For each flush toilet30
For each bath or shower30
For sprinkling or garden irrigation, payable during the months of May, June, July, August, September and October of each year:	
For the first 3,000 square feet, per 100 square feet . .	.075
For area over 3,000 square feet, per 100 square feet . .	.03

Special Conditions:

1. Any domestic, or residential, consumer heretofore served at metered rates, or any new applicant for domestic, or residential, service of water, may exercise his option to be served without a meter at the above flat rates; provided, however, that when a consumer or applicant has exercised his option to receive service under the flat rate schedule, such consumer or applicant must agree, while he remains a consumer, to accept service at the flat rates for a period of at least twelve (12) consecutive months.

IT IS HEREBY FURTHER ORDERED that the more elaborate schedule of flat rates heretofore filed by the California Water Service Company for unmeasured water service rendered to all classes of its customers in the City of Willows, Glenn County, and in the vicinity thereof, and which schedule has not 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 fire hydrants owned by the Company in the City of Willows, 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. Kille
Justin F. Cramer
Frank H. Russell
R. E. Dunderman
Samuel P. Pott
Commissioners.