

Decision No. 41635**ORIGINAL**

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 Petaluma and vicinity.

Application No: 28831
Amended

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

Karl Brooks, City Attorney, and Orrick, Dahlquist,
Neff, Brown & Harrington, by George H. Johnston,
for the City of Petaluma.

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 Petaluma, Sonoma County, in which locality the utility's system supplies water for domestic, commercial, industrial and municipal purposes.

In this proceeding the Company, in its original application filed October 29, 1947, requested a change in rates charged by it for water service in its Petaluma district which was intended, in effect, to restore approximately the level of rates which existed prior to 1938, and to add a further adjustment of about 20% to reflect increases in wages and property taxes. The water rates in this district have not been increased in more than 20 years and, in fact, were reduced by the utility in 1938, which reduction the Company now alleges was wholly unwarranted.

In an amendment to the application, filed April 8, 1948, the Company requested a further increase in rates to offset additional increases in wage rates made effective for the entire year

of 1948 and estimated to increase operating expenses by an amount of \$3,760 annually, and to provide for still further wage adjustments anticipated to become effective January 1, 1949, which, if actually established, will increase operating expenses by an additional amount estimated at \$5,000.

The Company further alleges that substantial capital additions and replacements to its Petaluma 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. In addition, the utility is presently encountering increased costs of producing water, due to receding water tables and decreases in surface water yield resulting from subnormal precipitation; the permanent effect of these increased costs the Company is unable to estimate, but considerable amounts have been spent for water supplied from leased wells and substantial sums are being expended to develop additional sources of water supply.

The Commission is requested to increase Applicant's rates for service rendered by its Petaluma water system in conformity with the revised proposed schedule set forth in the application, as amended, or such other adjustment in rates as the Commission may deem appropriate in order to yield the Company a just and reasonable return upon the value of its property used in the service of water in its Petaluma district.

A public hearing in this matter was held in Petaluma before Examiner Wehe on April 19, 1948.

The water supply for the City of Petaluma and vicinity is obtained partially by gravity flow from surface sources and partially by electrically-driven pumps producing water from wells located in the floor of the valley. The 1947 well production, including four leased wells, amounted to about 55% of the total system output, while in the five prior years it averaged around

37%. Total output amounted to nearly 394 million gallons during 1947, of which amount the leased wells accounted for approximately 10%. Lawler Reservoir, located about six miles north of the city and utilized to store the surface run-off, has a capacity of about 74 million gallons. Oak Hill Reservoir, in the westerly part of the city, receives filtered and treated water from all sources of supply and has a capacity of two million gallons. Including several tanks in the system used for various purposes, the total system storage capacity is approximately 76.3 million gallons. The transmission and distribution system includes pipe varying in size from 3/4" to 30" in diameter, and aggregated 305,340 feet in service as of December 31, 1947, of which approximately 60% was cast iron. At the end of 1947 there were 3,495 active service connections.

Practically all water delivered is sold at meter rates to all classes of consumers, except for fire protection. Commercial flat rates are applied to about 50 consumers occupying places of multiple tenancy where the piping is not arranged for separate metering, but these flat rates are becoming obsolete as fast as the Company can place meters on the services. Other flat rate service is rendered for fire protection. An annual revenue of \$355 is derived from the industrial flat rates applicable to private automatic fire sprinkler service. The public fire hydrants, now numbering 140, are owned and maintained by the City of Petaluma and are serviced with water by the Company at a flat rate of \$2.50 per hydrant per month. Applicant has not requested any change in the rates for any of its flat rate services.

The following tabulation provides a comparison of the schedules of meter rates presently in effect, those proposed by the Company, both in its original application and as amended, and those submitted by the Commission's staff as a possible alternative:

Rates Now	California Water Service Company	C.P.U.C. Staff
in Effect	Original Proposal : Amended Proposal	Alternative

Minimum Charges		Minimum Charges		Minimum Charges		Minimum Charges	
5/8" meter	\$1.00	5/8" meter	\$ 1.50	5/8" meter	\$ 1.60	5/8" meter	\$ 1.50
3/4" "	1.75	3/4" "	2.60	3/4" "	2.75	3/4" "	2.00
1" "	2.50	1" "	3.60	1" "	3.80	1" "	3.00
1 1/2" "	4.50	1 1/2" "	6.00	1 1/2" "	6.25	1 1/2" "	5.50
2" "	6.00	2" "	10.50	2" "	11.00	2" "	9.00
3" "	10.00	3" "	18.75	3" "	20.00	3" "	16.00
4" "	16.00	4" "	33.00	4" "	35.00	4" "	25.00
		6" "	55.00	6" "	55.00	6" "	50.00

Quantity Rates		Quantity Rates		Quantity Rates		Quantity Rates	
Block	:Rate Per:	Block	:Rate Per:	Block	:Rate Per:	Block	:Rate Per:
Cu.Ft.	:100 C.F.:	Cu.Ft.	:100 C.F.:	Cu.Ft.	:100 C.F.:	Cu.Ft.	:100 C.F.:
First 400	\$0.25	First 400	\$0.375	First 400	\$0.40	First 400	\$0.375
Next 400	.25	Next 2,600	.33	Next 2,600	.35	Next 2,100	0.36
Next 2,200	.225	Next 27,000	.25	Next 27,000	.27	Next 12,500	0.27
Next 12,000	.18	Over 30,000	.18	Over 30,000	.19	Over 15,000	0.18
Over 15,000	.12						

Evidence was presented for the Company by three of its officials. A report on the results of operation of the Company's Petaluma 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 1947, from which estimates of operating revenues, maintenance and operating expenses, taxes and depreciation were made for 1948 as a future year.

Estimates of future revenues were based on the actual water use in 1947, with due consideration to the effects of the relatively dry year of 1947 and taking into account the expected increase in consumption of water by 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. The Company's computations were based upon the revenues obtainable from its amended schedule of proposed rates, and included in expenses the estimated wage increases for 1948, amounting to \$3,760, and also an additional amount of \$5,000 for further anticipated increases for the year 1949. The Commission staff's report (Exhibit No. 11) was prepared before the amended application was filed and the computations therein were based upon the revenues obtainable from the Company's original schedule of proposed rates and no allowance was made for any further wage increases in 1948 over those in effect for 1947. At the hearing the Commission's staff introduced an alternative schedule of rates (Exhibit No. 12) and submitted total figures representing computations based upon revenues obtainable thereunder and making allowance in expenses for the Company's figure of \$3,760 for wage increases actually determined upon for 1948, but including no allowance for any further possible increases in the future. The important elements of all of this testimony will be tabulated subsequently in this opinion.

Fixed Capital, Rate Base and Depreciation

The fixed capital in service recorded on the books of the California Water Service Company for the Petaluma district properties is based on the historical cost estimate dated September 1, 1927, and submitted in evidence in Application No. 13514, plus subsequent net additions.

The rate base figures for the year 1947 are based upon the book capital which has been adjusted upward to reflect a supplemental water supply, construction work in progress, materials and supplies, and working cash. Deductions have been made for the net amounts that the Company has been reimbursed for consumers' advances for construction, and donations in aid of construction. In reference to land, the Company's estimates reflect the amounts carried on its books, while the Commission staff's estimates recognize the present market value of these lands.

The rate base for the estimated year 1948 has similar adjustments made to the book capital as of the end of 1947 plus the estimated net additions for the year 1948.

As a result of a study made in 1937 by engineers of the Commission, the Company adjusted its depreciation reserve as of December 31, 1936, and the depreciation expenses recorded subsequent to that time reflect use of certain composite 5 per cent sinking fund rates developed in that study. These composite rates, when applied to the end-of-year depreciable capital of each district, segregated to certain classes, developed an overall yearly composite rate for each district which was applied to the depreciable capital during the succeeding year. By this procedure the Company's reserve for depreciation for its Petaluma district, exclusive of the prorata of the San Jose general office depreciation reserve, amounted to \$173,077.72 as of December 31, 1947, or 18.8 per cent of the depreciable capital. A comparison of the book reserve with the computed reserve requirement as of December 31, 1946 indicated a small difference in the totals.

Engineers of this Commission reviewed, for this proceeding, the lives used in the development of the Company's composite annuity rates for the Petaluma district, and certain changes were made in the estimated lives after giving consideration to the present ages and future life expectancies of the

properties. These revised lives were adopted by the Company for its purpose in this proceeding. Application of the revised lives developed an over-all composite annuity rate of .00827 for the year 1947 as compared to the rate of .0100 previously used by the Company. The depreciation expense covering the supplemental water supply was computed on the wearing value of this property by the use of lives deemed proper for this special installation. The depreciation expenses applicable to the Petaluma district, based on the rates developed in this study, are somewhat less than those recorded by the Company for the year 1947.

Results of Operation

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	C.W.S. Company		C.P.U.C. Staff		
	Recorded Year 1947 at Present Rates	Estimated Year 1948 Amended Proposed Rates	Estimated Year 1948 Company's Original Proposed Rates*	Estimated Year 1948 Company's Amended Proposed Rates	At Staff's Alternative Rates
Operating Revenues:					
Flat Rate	\$ 6,324	\$ 4,572	\$ 6,040	\$ 6,040	\$ 6,040
Metered Rate	102,703	166,250	158,650	169,060	163,590
Miscellaneous	113	20	600	620	600
Total Revenues	109,140	170,842	165,290	175,720	170,230
Operating Expenses:					
Operating & Maintenance(a)	58,950	55,690	59,550	59,550	59,550
General & Miscellaneous(b)	15,822	16,025	15,420	15,420	15,420
Taxes (General)	15,285	15,925	16,066	16,066	16,066
5% S.F. Depr. Annuity	8,746	9,660	9,660	9,660	9,660
Subtotal	98,803	97,300	100,696	100,696	100,696
Taxes (Based on Income)	-	11,723	11,290	13,965	11,763
1948 Wage Increase	-	3,760	-	3,760	3,760
Contingent Wage Increase	-	5,000	-	-	-
Total Expenses	98,803	117,783	111,986	118,421	116,219
Net Operating Revenue	\$10,337	\$53,059	\$53,304	\$57,299	\$54,011
Average Rate Base	\$1,020,000	\$1,100,000	\$1,126,900	\$1,126,900	\$1,126,900
Rate of Return	1.01%(c)	4.82%	4.73%	5.08%	4.79%

- NOTES:** (a) Account Nos. 1 to 35, inclusive.
(b) Account Nos. 36 to 47, inclusive.
(c) The Commission staff's 1947 adjusted results of operation, with an average rate base of \$1,052,600, operating expenses of \$86,664, and net revenue of \$22,381, yielded a rate of return of 2.13%.

* Before allowance for 1948 wage increases.

The foregoing summary shows that the over-all results of operation are not materially different in the estimates presented by the Company and by the Commission's engineering staff. An analysis of the basic figures shows that the rates originally proposed by the Company would increase the metered revenues about 46% over those which could be produced under the rate schedule now in effect; that the increase by using the proposed rates, as amended by the Company, would be 56%; and that the increase by applying the Commission staff's alternate rates would be about 50.5%.

Customer Opposition

At the hearing representatives of the City of Petaluma, as well as a few of the individual water users, objected to the increases in the water rates prayed for by the Applicant.

It was alleged that the very substantial increases sought would create a financial hardship on both the City and its citizens and if such increases were granted it would, in all probability, cause a reduction in water used and hence in the earnings of the utility. It was also stated that the higher water rates would act as a deterrent in the development of new business.

Conclusions

It is clear that Applicant has been endeavoring to meet the sharply rising costs of operation at its present rate level, but growth in business has been at a far lesser rate than the increases in operating costs. Such rising costs have resulted not only from the general increase in price levels common to most commodities purchased today, but also from the adverse water supply situation in the Petaluma area, which has caused substantial expenditures for the development of additional water resources.

After a careful review of this matter, it is clear that Applicant must have some relief if it is to continue to meet the water demands of its customers. Of the two rate proposals it is concluded that the order should provide for a rate giving weight to both. The comparisons as to minimum charges are as follows:

<u>Size of Meter</u>	<u>Company Proposal</u>	<u>Commission's Staff's Proposal</u>	<u>Adopted for Decision</u>
5/8"	\$ 1.60	\$ 1.50	\$ 1.55
3/4"	2.75	2.00	2.00
1"	3.80	3.00	3.25
1 1/2"	6.25	5.50	6.00
2"	11.00	9.00	9.50
3"	20.00	16.00	17.50
4"	35.00	25.00	27.50
6"	55.00	50.00	50.00

In reference to the charges for quantity rates, the Commission staff's blocking and rates are adopted, except that for the first 400 cubic feet the charge per meter per month is increased from \$1.50 to \$1.55 and that for the terminal block for consumption over 15,000 cubic feet the rate is increased from 18 cents to 19 cents per 100 cubic feet.

The Order will also authorize an increase of 50 per cent in the commercial flat rates pending the withdrawal of such rates when these services can be metered.

It is estimated that the Utility's adjusted net revenues for an average year 1948 will amount to approximately \$55,500 and upon the Company's rate base will yield a rate of return of approximately 5 per cent. While such a return is probably on the low side, it is questionable whether higher rates at this time are necessary or would even be to the advantage of Applicant.

Based upon the conclusions herein reached, the following form of Order is made.

O R D E R

Application as entitled above having been filed with the Public Utilities Commission of the State of California, a public hearing 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 Petaluma, Sonoma 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 be and it is hereby authorized:

1. 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 effective date of this Order, Rate Schedules Nos. 1 to 4, inclusive, which are attached hereto and made a part of this Order as Exhibit "A". Said rates shall be charged for all water service rendered to its consumers, in and in the vicinity of the City of Petaluma, Sonoma County, on and after the first billing date following the effective date of this Order.
2. To refile its rates for unmetered water service for all classes now in effect for service in the City of Petaluma, and in the vicinity thereof, making the fifty (50) per cent increase for the commercial service in accordance with the Opinion preceding this Order, but to make no change in the presently filed and effective rates applicable to the water service to fire hydrants owned by the City of Petaluma, or for private automatic fire sprinkler service, which latter schedules are hereby continued in effect. The presently effective flat rate tariff schedules, which are in conflict with the newly ordered flat rates, shall be deemed to have been superseded and cancelled.
3. To file, within sixty (60) days from the effective date of this Order, for Commission approval four (4) copies of a suitable map 8½x11 inches in size, delineating thereupon the boundaries of its present service area in and around Petaluma. Likewise there should be filed, within sixty (60) days from the effective date of this Order, four (4) copies of a comprehensive map, drawn to an indicated scale of not less than 600 feet to the inch, upon which shall be delineated, by appropriate markings, the territory presently served in and around Petaluma.

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

Dated at San Francisco, California, this 25th day of May, 1948.

R. E. Induray
Justice J. Calver
Walter K. Russell
Harold P. Hule
Benjamin F. Potter
Commissioners

EXHIBIT NO. "A"

CALIFORNIA WATER SERVICE COMPANY

SCHEDULES NOS. 1 TO 4,
INCLUSIVE

APPLICATION NO. 28831

EXHIBIT NO. "A"

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

In the city of Petaluma, Sonoma County, and in the vicinity thereof.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
For first 400 cu.ft., or less.....	\$1.55
For next 2,100 cu.ft., per 100 cu.ft.36
For next 12,500 cu.ft., per 100 cu.ft.27
For all over 15,000 cu.ft., per 100 cu.ft.19
Minimum Charge:	
For 5/8-inch meter	\$1.55
For 3/4-inch meter	2.00
For 1-inch meter	3.25
For 1 1/2-inch meter	6.00
For 2-inch meter	9.50
For 3-inch meter	17.50
For 4-inch meter	27.50
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.

EXHIBIT NO. "A" (CONT'D)

Schedule No. 2

SERVICE TO POLITICAL SUBDIVISIONS

APPLICABILITY

Applicable to all water service rendered to municipal, county, and other political subdivisions of the state.

TERRITORY

In the city of Petaluma, Sonoma County, and in the vicinity thereof.

RATES

1. For all water used for street sprinkling and sewer flushing, by computed or measured quantity, per 100 cubic feet..... \$0.20
2. For each fire hydrant installed by the city, per month..... \$2.50
3. For all other use of water by public agencies, including public buildings, schools, and irrigation of parks and grounds, charges are to be made at the General Metered Service rates, Schedule No. 1.

EXHIBIT NO. "A" (CONT'D)

Schedule No. 3

COMMERCIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all unmeasured water service rendered to residential and business consumers until meters can be installed.

TERRITORY

In the city of Petaluma, Sonoma County, and in the vicinity thereof.

RATES

(Company to insert here a list of all classifications of service now being rendered at flat rates, showing monthly rates for such classifications which will result in charges no more than fifty (50) per cent greater than charges now being made.)

SPECIAL CONDITIONS

1. No new applications will be received for service under this schedule.
2. Existing commercial consumers receiving service under this schedule will be placed on metered service, as soon as the arrangement of piping will permit, and thereafter charged at the general metered service rates, Schedule No. 1.

EXHIBIT NO. "A" (CONT'D)

Schedule No. 4

FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service rendered to service connections which are installed solely for use of automatic fire sprinkler systems or for private fire protection purposes.

TERRITORY

In the city of Petaluma, Sonoma County, and in the vicinity thereof.

RATES

	<u>Per Month</u>
For each 6-inch service connection.....	\$9.00
For each 4-inch service connection.....	5.00
For each 2-inch service connection.....	2.50