

Decision No. 42481

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 Visalia and vicinity.

Application No. 29391

McCutchen, Thomas, Matthew, Griffiths &
Greene, by Robert M. Brown, for applicant;
E. I. Feemster, City Attorney for the
City of Visalia.

O P I N I O N

California Water Service Company, in this proceeding, seeks authority to increase the rates charged for water service in the City of Visalia and vicinity in Tulare County.

A public hearing on this application was held in Visalia on November 29, 1948, before Examiner O'Brien, after due notice to the political subdivisions affected, as well as individual notice to each customer in the Visalia District. No one present at the hearing registered any objection to an increase of rates nor to the proposed spread of the increase among various classes of customers.

The original Visalia water system was established in 1874 and operated by a number of individual owners until operation was taken over by Visalia Water Company and later by the Visalia City Water Company about 1894. In 1926, Federal Water Service Corporation acquired the outstanding stock of Visalia City Water Company. The properties of the company were transferred to California Water Service Company in 1927. Visalia is a community of about 10,000 people. In the area, applicant serves approximately 4,200 active service connections

with water from ten pumping stations supplied from 13 wells. During 1947, 1.3 billion gallons of water were produced. Aboveground storage is provided by two 300,000-gallon elevated steel tanks, and water is distributed, throughout the territory, through more than 300,000 feet of pipe, ranging in size from 3/4 inch to 12 inches. At the end of 1947, the number of service connections was 25% greater and the aggregate length of underground piping 20% more than the respective quantities were at the end of 1942. Water production in 1947 was 8% more than in 1942.

Applicant bases its justification for an increase in rates on the postwar rise in all expenses to which it is subjected. The record shows that since 1941, operating expenses per customer have increased 43% and wage rates have risen 112%. Using specific examples, of cost increases of comparable facilities, elevated storage tanks cost 175% more than in 1936, wells and pumps are up 100% over 1942, costs of six-inch pipes laid underground are 95% higher than 1941, and 3/4 inch service connections are up 90%. In general, construction costs have approximately doubled since the prewar years.

Financing of Properties

Besides Visalia, applicant serves 28 other cities and towns. In meeting its capital requirements through the issue of securities, it seeks to provide funds for all its plants and not for one particular system or district. It has been its practice to meet such requirements, in part, with temporary loans which later are refunded through permanent financing. Generally speaking, it has financed its investment in plant through the issue of bonds, notes, preferred and common stock, and by the use of depreciation reserve monies and earned surplus. Its financial structure, considering the company as a whole, as of June 30, 1948, adjusted to reflect subsequent security issues and excluding its depreciation and amortization reserves which are stated at \$4,508,426, is shown as follows:

Long-term debt -			
First mortgage 3% bonds, due 1975			
1945 issue	\$11,282,000		
1947 issue	1,500,000		
1948 issue	<u>1,500,000</u>	\$14,282,000	53%
Serial notes		<u>480,000</u>	2%
Total long-term debt		<u>14,762,000</u>	55%
Preferred stock -			
1945 issue, 4.4% cumulative		3,475,000	
1948 issue, 5.3% cumulative, convertible		<u>2,000,000</u>	
Total preferred stock		<u>5,475,000</u>	20%
Equity capital -			
Common stock		5,250,000	
Surplus		<u>1,440,813</u>	
Total equity capital		<u>6,690,813</u>	25%
	Total	<u>\$26,927,813</u>	<u>100%</u>

A representative of the company estimated the average effective interest rate on monies obtained through the issue of bonds, serial notes and preferred stock and the investment of those reserves which are being accumulated on the sinking fund basis at approximately 4%, while a member of the Commission's staff estimated such average effective rate as ranging from approximately 3.7% to approximately 4%, depending on whether or not there is considered in the calculation, charges pertaining to refunded issues. The record in this connection shows that from time to time applicant has availed itself of changes in prevailing interest rates to refund bonds and preferred stock with issues bearing lower interest and dividend rates.

As to outstanding common stock, the record shows that applicant has paid annual dividends of \$2 a share since 1942, being at the rate of 8% per annum on the par value. During the last five years, the average earnings per share from operations, excluding surplus adjustments, have amounted to 10.74% of the par value of the common stock. Stating it another way, the common stock earned, on the average for the five-year period, approximately \$2.66 a share and received, as dividends, \$2 a share, leaving an amount equivalent to approximately \$.66 a share, as an addition to surplus. The record contains testimony showing the terms under which the outstanding shares of common stock were sold and the market value of such shares, and of the bonds and preferred stock as

well, over a period of time. On this latter point, it is noted that the market prices of the outstanding securities have been declining. For example, in November, 1948, applicant sold \$1,500,000 of bonds on a 3.54% basis as compared with a 3.21% basis on the 1947 issue and a 2.86% basis on the 1945 issue. At or about the same time, it sold \$2,000,000 of cumulative convertible preferred stock on a 5.24% basis as compared with a 4.19% basis for the cumulative preferred issue in 1945.

The record in this and in other proceedings shows that applicant is faced with substantial construction expenditures which must be financed in part through the issue of additional bonds and/or stock. In passing on the present proceeding the Commission must consider, among other things, not only the historical costs of capital but also the maintenance of applicant's earnings so that it will be able to raise needed additional capital. Reference is hereafter made to the return that applicant may realize under the rates proposed by it.

Rate Base

The base upon which applicant may be permitted to earn a return should appropriately reflect the plant, properties, and equipment required to render proper service to its customers. For many years this Commission has used a base predicated upon the reasonable historical cost of the properties used and useful in rendering this service. Although considerable concern has been expressed over the effect of spiralling prices on future plant costs and the fact that present facilities could not be replaced for the historical book cost at present price levels, the use of an undepreciated historical cost base, which is the most readily obtainable and least speculative of any base which might be developed, will result in no injustice provided proper recognition is given to the utility's financial needs in the allowed return.

A summary of the estimated rate bases prepared by applicant and by the Commission's staff for the various periods involved is as follows:

<u>For Year Ending</u>	<u>Rate Base</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>
12-31-47	\$	\$577,200
6-30-48	695,000	645,400
12-31-48	765,000	
6-30-49		811,300
12-31-49	894,000	

Only two of the above estimates cover the same annual period. For that period, the staff estimate is \$49,600 less than applicant's. Of that amount, \$35,000 represents the difference between working cash estimates. The staff estimate of working cash is developed from an analysis of the current volume of monthly expenditures, the time lag between payment of expense items and collection of metered revenues, advance collection of flat rate revenues, and accrual of taxes in advance of payment. The same method has been used by the staff many times in the past. Applicant estimated its working cash requirement by determining one month's operating expenses less taxes and depreciation and taking 85% of that amount. Flat rate revenues approximate 85% of total revenues. Two months' operating expenses less taxes and depreciation were then determined, of which 15% was assigned to working cash. Finally an average of three months' construction expenditures was developed and added to the working cash provision. This latter allowance approximated \$32,000. The testimony reveals that frequently these construction funds are obtained by temporary bank loans at an interest rate of about 2%. The temporary loans are retired by funds secured from permanent financing at some later date. The utility is entitled to consideration for interest on reasonably necessary funds for construction purposes, but there is no justification for including construction funds in working capital. The balance of the rate base difference reflects a variance in the method of determining average fixed capital figures for the several periods. While the capital balances and net capital additions used by applicant and by the staff are identical in amount, the net additions have been accorded different weighting in the two studies. Applicant has apparently used an average of end-of-year balances. The staff, on the other hand, has

used an average of monthly balances. Where expenditures predominate in the latter part of the year, the staff's method gives a somewhat lower result. Such a treatment, however, introduces no particular difficulty provided proper recognition is accorded in subsequent analysis.

Revenues

Applicant has submitted a revision of its rate schedules which will yield a gross annual income higher than will those presently in effect. The specific changes proposed will be discussed in somewhat greater detail later in this opinion.

Both the applicant and the Commission's staff have made estimates of the annual gross revenues which would be obtained by application of these alternative rates in a number of different annual periods. A comparative summary of these estimates is shown below:

<u>For Year Ending</u>	<u>Gross Operating Revenues</u>			
	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>	<u>Applicant</u>	<u>CPUC Staff</u>
12-31-47	\$108,353*	\$	\$	\$
6-30-48	113,209*	113,210*	140,516	140,549
12-31-48	118,820		147,301	
6-30-49		122,240		151,203
12-31-49	127,505		158,024	

* Actual

A study of this comparison indicates no marked difference in the estimates of revenue to be derived from a specific schedule of rates. Whether or not the rates proposed should be authorized depends upon the level of the net return which they will produce.

Expenses

Estimates of operating expenses for the several annual periods shown above have been made by applicant and by the Commission staff. Such expenses include operating and maintenance costs, general administrative and miscellaneous charges, taxes, depreciation, and an amount to cover uncollectible

bills. Comparisons of the total estimated expenses are shown on a summary similar to the tabulation of revenues.

For Year Ending	Total Operating Expense			
	Present Rates		Proposed Rates	
	Applicant	CPUC Staff	Applicant	CPUC Staff
12-31-47	\$	\$80,960*	\$	\$
6-30-48	84,416	83,788/	94,793	94,753
12-31-48	90,393		101,216	
6-30-49		93,536		105,152
12-31-49	98,669		109,804	

* Recorded
/ Adjusted

Here again a comparison of the estimates reveals only minor differences in estimated costs of operation. Applicant's estimated future expenses, being predicated upon trends of costs, reflect a probable increase in wage rates above those presently in effect. The Commission staff's estimate, for the year ending June 30, 1949, on the other hand, is predicated upon the level of wages in effect in 1948. It is a matter of record that the wage rates paid by applicant are governed by agreements between a union representing the employees and applicant's management. Notice of a desire to negotiate new wage agreements for 1949 has been received by applicant and negotiation sessions have been scheduled.

Net Revenues and Rate of Return

A comparative summary of the estimated net revenues resulting from the foregoing revenue and expense estimates follows:

For Year Ending	Net Revenues			
	Present Rates		Proposed Rates	
	Applicant	CPUC Staff	Applicant	CPUC Staff
12-31-47	\$	\$27,393*	\$	\$
6-30-48	28,793	29,422/	45,723	45,796
12-31-48	28,427		46,085	
6-30-49		28,704		46,051
12-31-49	28,836		48,220	

* Recorded
/ Adjusted

A review of this summarization indicates rather close agreement between the estimates prepared by applicant and those made by the Commission's

staff. When the above net revenues are related to the respective rate bases prepared by the applicant and the Commission's staff, a tabulation of the estimated rates of return shows the following comparative relationships:

<u>For Year Ending</u>	<u>Rate of Return</u>			
	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>	<u>Applicant</u>	<u>CPUC Staff</u>
12-31-47		4.75%		
6-30-48	4.1%	4.56	6.5%	7.10%
12-31-48	3.7		6.0	
6-30-49		3.54		5.68
12-31-49	3.2		5.4	

The above table reveals a number of significant factors. The rate of return developed from the staff's estimate is somewhat above that estimated by applicant for the period where directly comparable figures are available. This differential is traceable in large part to differences between the estimated rate bases heretofore discussed. The trend of the figures shows a steadily declining rate of return over the period of time shown, and it is doubtful whether applicant will earn more than 5 1/2% during the coming year on the rate base suggested by the staff of the Commission.

Rates, Present and Proposed

The present schedule of rates provides optional flat or meter rates. The flat rates are applicable to commercial and governmental service as well as domestic. For the period ended June 30, 1948, 18% of the revenues were derived from meter rates and 82% from flat rates. Except for minor adjustments, there have been no basic changes in the rate schedules for 35 years, in spite of substantial changes in characteristics of the service area, in customer usage, and in construction costs.

The rates proposed by applicant after a considerable study of present customer requirements and usage and an analysis of allocated costs of service embrace the following principal changes. Flat rates for commercial, municipal, county, and school accounts would be changed to metered service. The schedule of meter rates would be adjusted, both as to level and blocking, to reflect more nearly an equitable spread of rates according to usage.

Flat rate service, available only to residential customers, optionally with metered service would be established at a level of rates approximately 30% above the present schedule.

An estimate by the staff of the amount and percentage of increases which would result from applicant's proposed rates, by classes of service, based upon usage for the year ending June 30, 1949, follows:

	Estimated	Revenue Increases					
		Total	Flat Rate		Metered Rate		Total
Revenue	Present	Amount	%	Amount	%	Amount	%
Residential	90,910	\$26,154	30.0			\$26,154	28.8
Business	25,360	1,986	30.0	(534)	(2.9)	1,452	5.7
Government	5,790	1,422	30.0	(55)	(5.2)	1,357	23.4
Miscellaneous	120						
Other	60						
Total	122,240	27,562	30.0	(599)	(2.5)	28,963	23.7

(decrease)

Another method of comparing the proposed rates with the present rates is to show examples of bills based upon estimated typical usage. Such a comparison is shown below:

	Monthly Bill		
	Present Rate	Proposed Rate	Per Cent Increase
<u>Flat Rate Service</u>			
Five room house, bath and toilet, no yard irrigation	\$1.25	\$1.63	30.4%
Six room house, bath and toilet, 500 square yards of irrigation	2.40	3.16	31.6
<u>Metered Service</u>			
For monthly use of:			
400 cubic feet	.75	1.00	33.3
500 cubic feet	1.10	1.15	4.5
800 cubic feet	1.40	1.45	3.6
1,000 cubic feet	1.70	1.75	2.9
5,000 cubic feet	7.70	6.55	(14.9)
10,000 cubic feet	12.70	11.05	(13.0)
50,000 cubic feet	40.70	39.05	(4.1)
100,000 cubic feet	75.70	61.05	(19.4)

(decrease)

One other analysis which is of interest was introduced by applicant to show the propriety of the changes made in the spread of rates. This analysis

was based on an allocated cost of service study. This exhibit showed the following average relationship between the estimated cost of service and the estimated revenue yield of present rates as follows:

<u>Per Average Customer</u>	<u>Revenue Present Rates</u>	<u>Estimated Allocated Cost</u>	<u>Revenue as Per Cent of Cost</u>
Flat Rates	\$23.64	\$30.83	76.7%
Meter Rates	51.08	44.33	115.1
Total	26.33	32.16	81.9
<u>Per 100 c.f. of Water</u>			
Flat Rates	.06	.08	75.0
Meter Rates	.13	.11	118.0
Total	.07	.08	87.5

The inference which can be drawn from the study is that while total revenues must be increased, a proper adjustment would involve a substantial increase in rates for flat rate service and a decrease in rates for metered service. Such an adjustment is embodied in the proposed rates.

Applicant proposes to change flat rate nondomestic customers to meter rates. To do so will require the installation of proper equipment. Pending such installation, which may take some time because either the company or the customer may have difficulty in obtaining the required materials, or in making the necessary piping rearrangement, applicant requests authority to bill such customers at the present flat rates, increased in each case by 30%, similar to the proposal applicable to residential flat rate customers. Applicant has offered to file with the Commission a list of such nondomestic customers pending institution of metered service.

The foregoing discussion indicates that the rates proposed by applicant would result in reductions in meter revenues for consumptions in excess of 1,000 cubic feet per month. In view of the substantial increases to flat rate service and to meter service in the lower consumption ranges, it would appear more appropriate at the present time to make no reduction in meter rates and a somewhat lesser increase in other charges so that the revenue level sought by applicant will be achieved. The rates hereafter ordered will result in a nominal increase in meter revenues of about 3% because of an increase in minimum charges but will

leave the balance of the schedule at its present level. Domestic revenues, as a result, need to be increased ~~by~~ an average of 28% instead of the 29% resulting from the rates proposed by applicant.

It is apparent from the evidence that the present rates will yield inadequate income from future service rendered in Visalia. The record likewise indicates that the net return which applicant will receive from its proposed rates will not be unreasonably high.

ORDER

California Water Service Company having applied to this Commission for authority to increase the rates charged for water service in the City of Visalia and vicinity in Tulare County, a public hearing having been held, evidence having been introduced, the Commission being fully advised in the premises, and the matter having been submitted for decision,

IT IS HEREBY FOUND AS A FACT that the increases in rates authorized herein are justified; therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission after the effective date of this order, in conformity with the Commission's General Order No. 96, the schedule of rates shown in Exhibit A attached hereto, and, upon not less than five (5) days' notice to the Commission and the public, to make said rates effective for service rendered on and after the first day of March, 1949, more particularly as follows:

1. Schedule No. 1, Domestic Flat Rate Service, shall be made effective for regular bills for water service rendered on and after March 1, 1949.
2. Schedule No. 2 shall be made effective for water service rendered from and after the regular meter reading next succeeding March 1, 1949.
3. Schedule No. 3 shall be made effective for regular bills for water service rendered on and after March 1, 1949.

IT IS HEREBY FURTHER ORDERED that California Water Service Company is authorized and directed:

4. To withdraw and cancel existing rate schedules superseded by Schedules Nos. 1, 2, and 3, concurrently with the filings hereinabove ordered.

5. To file with this Commission, within forty (40) days after the effective date of this order, four (4) copies of a suitable map or sketch, drawn to an indicated scale upon a sheet 8 1/2 x 11 inches in size, delineating thereupon in distinctive markings the boundaries of its present service area in and around Visalia and the location thereof with reference to the immediate surrounding territory: provided, however, that such filing shall not be construed as a final or conclusive determination or establishment of the dedicated area of service or any portion thereof.

6. To file with this Commission, within fifty (50) days after 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 Visalia. This map should be reasonably accurate, show the source and date thereof, and include sufficient data to determine clearly and definitely the location of the property comprising the entire utility area of service: provided, however, that such filing shall not be construed as a final or conclusive determination or establishment of the dedicated area of service or any portion thereof.

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

Dated at San Francisco, California, this 1st day of

February, 1949.

R. J. Anderson
Justus J. Cooper
Wesley H. Howell

Commissioners

Schedule No. 1

DOMESTIC FLAT RATE SERVICE

APPLICABILITY

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

TERRITORY

In the city of Wasalia, Tulare County, and in the vicinity thereof.

RATES

	<u>Per Service Per Month</u>
For each residence of five rooms or less	\$1.30
For each additional room . . . . .	.20
For each flush toilet . . . . .	.15
For each bath or shower . . . . .	.15
For sprinkling or garden irrigation, applicable during the months of May, June, July, August, September, and October of each year, but payable in equal monthly installments throughout the year.	
For the first 100 square yards or less . . . . .	.60
For the next 200 square yards, per square yard. . . . .	.006
For the next 1,000 " " " " " . . . . .	.001
For all over 1,300 " " " " " . . . . .	.002

SPECIAL CONDITIONS

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

Schedule No. 2

GENERAL METERS SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

In the city of Visalia, Tulare County, and in the vicinity thereof.

RATES

Quantity Rates:		Per Meter Per Month
For the first	500 cubic feet or less	\$1.00
For the next	4,500 " " , per 100 cubic feet . . . . .	.15
For the next	5,000 " " " " " " . . . . .	.10
For all over	10,000 " " " " " " . . . . .	.07

Minimum Charge:

For 5/8-inch meter	\$1.00
For 3/4-inch meter	1.40
For 1-inch meter	2.40
For 1 1/2-inch meter	4.00
For 2-inch meter	7.00
For 3-inch meter	12.00
For 4-inch meter	20.00
For 6-inch meter	40.00
For 8-inch meter	60.00

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. 3

TEMPORARY FLAT RATE SERVICE

APPLICABILITY

Applicable to all unmeasured water service rendered to consumers other than domestic or residential consumers until meters can be installed.

TERRITORY

In the city of Visalia, Tulare County, and in the vicinity thereof.

RATES

(Company to insert here a list of all classifications of service, except domestic and residential service, now being rendered at flat rates, showing monthly rates for such classifications which will result in charges no more than twenty-nine (29) per cent greater than charges now being made.)

SPECIAL CONDITIONS

1. No new service connections may receive service under this schedule.
2. Existing nondomestic consumers may receive metered service as soon as the arrangement of piping will permit and thereafter may receive service only under General Metered Service rates, Schedule No. 2.