

Decision No. 42498

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 Hanford  
and vicinity.

Application No. 29392

McCutchen, Thomas, Matthew, Griffiths &  
Greene, by Robert M. Brown, for applicant;  
Clarence E. Wilson, City Attorney for the  
City of Hanford.

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 Hanford and vicinity in Kings County.

A public hearing on this application was held in Hanford on November 30, 1946, before Examiner O'Brien, after due notice to the political subdivisions affected, as well as individual notice to each customer in the Hanford 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 Hanford water system was established about 1881 and operated by individual owners until the Hanford Water Company, Inc. was organized in 1906. In 1927, Federal Water Service Corporation acquired the outstanding stock of Hanford Water Company, Inc. The properties of the company were transferred to California Water Service Company in 1929. Hanford is a community of about 15,000 people. In the area, applicant serves approximately 3,200 active

service connections with water from eight pumping stations supplied from eight wells. During 1947, one billion gallons of water were produced. Aboveground storage aggregating 475,000 gallons is provided in three elevated steel tanks, and water is distributed, throughout the territory, through more than 200,000 feet of pipe, ranging in size from 1 inch to 12 inches. At the end of 1947, the number of service connections was 19% greater and the aggregate length of underground piping 11% more than the respective quantities were at the end of 1942. Water production in 1947 was 34% 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 54% and wage rates have risen 150%. Using specific examples, of cost increases of comparable facilities, elevated storage tanks cost 18% more than in 1947, wells and pumps are up 77% 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 Hanford, 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, 1946, 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	1,500,000	\$14,282,000	53%
Serial notes		480,000	2
Total long-term debt		<u>14,762,000</u>	<u>55</u>
Preferred stock -			
1945 issue, 4.4% cumulative		3,475,000	
1948 issue, 5.3% cumulative, convertible		2,000,000	
Total preferred stock		<u>5,475,000</u>	20%
Equity capital -			
Common stock		5,250,000	
Surplus		1,440,813	
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 rates as ranging from approximately 3.7% to approximately 4%, depending on whether or not there are 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 10.75% 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 \$0.66 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% 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 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	\$	\$504,700
6-30-48	571,000	544,700
12-31-48	598,000	
6-30-49		604,800
12-31-49	656,000	

Only two of the above estimates cover the same annual period. For that period, the staff estimate is \$26,300 less than applicant's. Of that amount, \$16,000 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 \$15,000. 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	\$ 84,292*	\$	\$	\$
6-30-48	85,671*	85,671*	107,660	107,735
12-31-48	88,020		110,432	
6-30-49		89,722		112,522
12-31-49	91,790		115,069	

\* 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's 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.

<u>For Year Ending</u>	<u>Total Operating Expense</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	\$	\$ 62,402*	\$	\$
6-30-48	62,826	60,524/	71,183	69,374
12-31-48	65,373		73,287	
6-30-49		66,614		75,758
12-31-49	68,257		77,103	

\* 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 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:

<u>For Year Ending</u>	<u>Net 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	\$	\$21,890*	\$	\$
6-30-48	22,845	25,147/	36,477	38,361
12-31-48	22,647		36,543	
6-30-49		23,108		36,764
12-31-49	23,533		37,966	

\* 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	%	4.34%	%	%
6-30-48	4.0	4.62	6.4	7.04
12-31-48	3.8		6.1	
6-30-49		3.82		6.08
12-31-49	3.6		5.8	



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 as much as 6% 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, 17% of the revenues were derived from meter rates and 83% from flat rates. Except for minor adjustments, there have been no basic changes in the rate schedules for over 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 and municipal accounts would be changed to metered service except the charge for the interconnections between the company's system and the city fire protection system. 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 expected usage for the year ending June 30, 1949, follows:

Class of Service	Estimated		Revenue Increases				
	Total		Flat Rate		Metered Rate		Total
	Revenue	Present Rates	Amount	%	Amount	%	Amount
Residential	\$67,330	\$19,524	30.0%	(107)	(4.7)%	\$19,417	28.8%
Business	19,970	2,367	30.0	(245)	(2.0)	2,122	10.6
Industrial	800			29	3.6	29	3.6
Municipal	1,612	96	18.8	1,136	103.3	1,232	76.4
Other	10					-	0.0
<b>Total</b>	<b>89,722</b>	<b>21,987</b>	<b>29.9</b>	<b>813</b>	<b>5.0</b>	<b>22,800</b>	<b>25.4</b>

(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:

Flat Rate Service	Monthly Bill		
	Present Rate	Proposed Rate	Per Cent Increase
Five room house, bath and toilet, no yard irrigation	\$1.50	\$1.96	30.7%
Six room house, bath and toilet, 500 square yards of irrigation	3.15	4.05	28.6
<u>Metered Service</u>			
For monthly use of:			
500 cubic feet	1.00	1.00	0.0
600 cubic feet	1.11	1.15	3.6
800 cubic feet	1.48	1.45	(2.0)
1,000 cubic feet	1.85	1.75	(5.4)
5,000 cubic feet	8.33	6.65	(20.6)
10,000 cubic feet	12.88	11.40	(11.5)
50,000 cubic feet	36.88	42.40	15.0
100,000 cubic feet	66.88	72.40	8.3

(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	\$23.48	\$31.00	75.7%
Meter Rates	87.95	73.30	120.0
Total	26.89	33.24	80.9
<u>Per 100 c.f. of Water</u>			
Flat Rates	.06	.09	66.7
Meter Rates	.10	.08	125.0
Total	.07	.09	77.8

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 of meter revenues for consumption between 700 and 15,000 cubic feet per month. In view of the substantial increases to flat rate service and to metered service in the higher consumption ranges, it would appear more appropriate at the present time to make no reduction in charges at meter rates. This can be accomplished by retaining the present meter rate schedule at a level approximating the present level. By doing so, both increases and decreases which would have resulted from the proposed meter rate will be practically eliminated. The resulting changes in estimated revenues from usage in the middle blocks will be offset by changes in the higher blocks and thereby the revenue level sought by applicant will be slightly increased. Such increase will be offset by a corresponding minor reduction in the flat rate schedule.

It may be pointed out here that the relatively high increase in revenues estimated to be obtained from service to the municipality is due to the fact that heretofore the city of Hanford has enjoyed the benefit of a special rate of 3-3/4 cents per 100 cubic feet of water used for all purposes through metered connections. As this is far below the cost of such service, it is appropriate at this time to eliminate this preferential rate and to require the municipality to pay the same rates as those charged to other consumers for comparable consumptions of water.

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

O R D E R

California Water Service Company having applied to this Commission for authority to increase the rates charged for water service in the city of Hanford and vicinity in Kings 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 sixteenth 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 16, 1949.
2. Schedule No. 2, General Metered Service, shall be made effective for water service rendered from and after the regular meter reading next succeeding March 16, 1949.
3. Schedule No. 3, Temporary Flat Rate Service, shall be made effective for regular bills for water service rendered on and after March 16, 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 copies of a suitable map or sketch, drawn to an indicated scale upon a sheet 8½ x 11 inches in size, delineating thereupon in distinctive markings the boundaries of its present service

area in and around Hanford 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 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 Hanford. 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 8<sup>th</sup> day of February, 1949.

R. Z. [Signature]  
Justin F. [Signature]  
[Signature]  
[Signature]  
[Signature]  
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 Hanford, Kings 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.....	.32
For each bath or shower.....	.33
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 50 sq. yds. or less.....	.40
For the next 450 sq. yds., per sq. yd.....	.0075
For all over 500 sq. yds., per sq. yd.....	.004

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 METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

In the city of Hanford, Kings 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	2,500 cubic feet, per 100 cubic feet . .	.18
For the next	2,000 cubic feet, per 100 cubic feet . .	.15
For the next	5,000 cubic feet, per 100 cubic feet . .	.09
For all over	10,000 cubic feet, per 100 cubic feet . .	.06

  

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 Hanford, Kings 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 thirty (30) 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.