

ORIGINAL

Decision No. 43697

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 author-
izing it to increase rates charged
for water service in the City of
San Mateo and vicinity.

Application No. 30270

McCutchen, Thomas, Matthew, Griffith and Greene
by Charles E. Finney and Robert M. Brown for
applicant; Arthur J. Harzfeld, City Attorney,
Frank W. Rose, Assistant City Attorney, and
Arthur E. Sullivan, City Manager, for the City
of San Mateo.

O P I N I O N

California Water Service Company, in this proceeding, seeks authority to increase rates charged for water service in its San Mateo District, which includes the customers in the City of San Mateo and adjacent unincorporated territory. Applicant estimates that the rates it proposes to charge would increase revenues based upon estimated normal 1949 operations by about \$75,700, or approximately 14.2%.

Public hearings on the application were held in San Mateo on November 7, 9, and 23, 1949.

At the end of 1948, applicant served 11,503 customers in its San Mateo District, all but 54 being domestic or commercial users. Water production in 1948 exceeded 1.3 billion gallons, and more than 700,000 feet of transmission and distribution mains were needed to serve the area. Tanks, reservoirs, and basins provide about 4,800,000 gallons of storage. Essentially all of the water requirements for the San Mateo District are purchased from the Municipal Water Department of the City of San Francisco; however ten wells and associated treatment facilities are maintained as emergency sources of supply.

Applicant contends that the proposed rate increase has been brought about by the sharp rise in costs of doing business, which have exceeded the annual growth in its revenues. Its evidence indicates that, between 1941 and the year ending June 30, 1949, a 72% increase in customers and a 65% increase in fixed capital were accompanied by a 107% increase in operating revenue. Operating expenses, on the other hand, increased 150% in the same period, so that the corresponding gain in net revenue was only 22%. The costs of various items of plant were shown to have increased sharply with cast iron mains 92% to 100% above 1941 costs, and services and fire hydrants 77% and 134% higher. Since 1945 the cost of a half million gallon storage tank advanced 55%. Operating costs reflect the effect of labor wage rates 108% and local property taxes 403% above 1941 levels. Cost of water purchased was subjected to an 18% increase in rate in 1945 and a 4% increase in July of 1949.

Engineers of the Commission staff, as well as applicant, prepared estimates of the results of operations of the San Mateo District on several bases. The estimates for 1949 under assumed average conditions, with both present rates and proposed rates effective throughout the year, are summarized on the following tabulation:

Estimated Results of Operation
1949 - Average

	<u>Present Rates</u>		<u>Proposed Rates</u>	
	<u>Applicant</u>	<u>CPUC Staff</u>	<u>Applicant</u>	<u>CPUC Staff</u>
Operating Revenues	532,580	549,610	608,318	627,661
Operating Expense	335,910	346,806	335,910	346,806
Taxes	73,550	75,475	102,330	107,070
✓ Depreciation <u>1/</u>	22,000	13,379	22,000	13,379
Total Expense	431,460	435,660	460,240	467,255
Net Revenue	101,120	113,950	148,078	160,406
Rate Base	2,705,000	2,695,000	2,705,000	2,695,000
Rate of Return	3.7	4.23	5.5	5.95

Both applicant and the Commission staff predicated the estimates upon the latest recorded revenue and expense statistics available and estimated the balance of the year under anticipated

✓ 1/5% Sinking Fund Annuity.

actual conditions. The estimates were then adjusted to reflect sales and resulting revenues under average rainfall conditions, and expenses adjusted to such average sales level with other modifications to reflect current average expense levels.

Applicant's estimate of depreciation expense is based upon the results of a Commission staff study in 1937, at which time applicant made changes in its depreciation practices in accordance with staff recommendations. The annuity estimated by the staff reflects changes in depreciation rates which the staff developed in a review of experience in this district since 1937. Applicant's expenses should be adjusted to reflect the lower staff figure. The staff, likewise, estimated transmission and distribution expenses about \$3,900 lower than applicant. The staff estimate of this item represents an average of the past several years' experience, adjusted for changes in price level, and appears to reflect more nearly average conditions than does applicant's estimate.

Other major differences in expense items appear to be directly associated with the differences in revenue and sales estimates. While the estimates of sales before adjustment for average rainfall are in fairly close agreement, applicant's reduction in revenue considerably exceeds that suggested by the staff. Witnesses who made the estimates determined average sales volume by taking a composite of experience of four previous years. The years selected by each as representative differed, and produced different correction factors. In view of the methods used, it appears appropriate to give equal weight to both estimates.

The staff rate base estimate is \$10,000 less than applicant's. Applicant included in its rate base a working cash allowance which was greater than the staff estimate by that amount. While both witnesses used the same formula to determine the gross cash requirement, applicant's witness gave no credit for funds representing taxes accrued

substantially ahead of payment, an adjustment which the staff made. We believe the staff adjustment to be proper. On the basis of the foregoing adjustments it appears that applicant, under present rates and average conditions, would show a return in 1949 of about 4.1%.

As shown in the tabulation, applicant estimated its return at 3.7% under present rates and at 5.5% under proposed rates, while the staff estimated the return at 4.23% under present rates and at 5.95% under proposed rates, using a slightly different rate base.

Applicant's witness estimated the weighted average effective interest rate on the outstanding bonds, serial notes, preferred stock and reserves at 3.997%, including in the calculation certain items of discount, premium and expense relating to refunded issues which no longer appear on the books and do not reflect charges currently being made against income. The Commission staff witness estimated the average effective rates, excluding charges pertaining to refunded issues, at 3.71% and, including those charges which currently are being amortized against the company's income, at 3.86%. As to the common stock, the record contains testimony showing the terms under which it was issued, the earnings and dividends in preceding years and present market prices. It shows, among other things, that dividends in varying amounts and at varying rates have been paid annually since 1927 (except in 1931) and that since 1942 dividends have been paid in the amount of \$2 per share, being at the rate of 8% of the par value, with average earnings per share of \$2.65.

Applicant's presently outstanding bonds represent approximately 56% of its capital structure. It is faced, during the coming year, with construction expenditures in excess of \$3,000,000 and it is clear that a substantial portion of its capital requirements should be provided from some source other than bonds. Applicant's witness reported that additional stock financing is contemplated during the coming year and he estimated that earnings of not less than \$2.75 a share are required in order to sell such stock.

A review of the record indicates that the revenues under present rates would be insufficient to yield applicant a fair return. Upon the basis of the information submitted in this proceeding, we conclude that an increase in rates should be authorized to provide additional revenues of \$63,500. Such an increase should result in a return of approximately 5.5% on the rate base recommended by the Commission staff, which return, in our opinion, is not unreasonable and will not result in an undue burden on applicant's consumers.

In establishing the rates required to produce that estimated volume of revenue, applicant's proposed service charges will be accepted. The first block of the quantity rate, however, will be set at 27½ cents per 100 cubic feet, one cent less than proposed; the rate for the second block will be set at 26 cents per 100 cubic feet, one cent higher than proposed; and the terminal rate for consumption over 30,000 cubic feet per month will be set at 20½ cents, which is the rate proposed. Under estimated 1949 average conditions, such rates are estimated to produce approximately the increase in revenues to which applicant is entitled. Although applicant presented statistics from which it inferred that the unfavorable downward trend of earning position would continue into 1950, the rates herein prescribed are such that, with careful attention to operating economies, applicant should enjoy a proper return from its San Mateo operations for a reasonable period in the future.

O R D E R

California Water Service Company having applied to this Commission for an order authorizing increases in rates in its San Mateo District, a public hearing having been held, and the matter having been submitted, for decision,

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

Schedule No. 1

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

In the City of San Mateo, San Mateo County, and in the vicinity thereof.

RATES

Service Charge:

Per Meter
Per Month

For 5/8-inch meter.....	\$ 0.60
For 3/4-inch meter.....	0.80
For 1-inch meter.....	1.50
For 1 1/2-inch meter.....	2.10
For 2-inch meter.....	3.60
For 3-inch meter.....	5.40
For 4-inch meter.....	7.20
For 5-inch meter.....	9.60
For 6-inch meter.....	14.40
For 8-inch meter.....	22.00

Quantity Rates:

For the first 3,000 cubic feet, per 100 cu.ft.....	\$ 0.275
For the next 27,000 cubic feet, per 100 cu.ft.....	0.260
For all over 30,000 cubic feet, per 100 cu.ft.....	0.205

The Service Charge is a readiness-to-serve charge to apply to all metered service and to which is to be added the monthly charge computed at the Quantity Rates.

Schedule No. 2

MUNICIPAL FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all water service rendered to municipal fire hydrants.

TERRITORY

In the City of San Mateo, San Mateo County.

RATES

Per Hydrant
Per Month

For fire hydrants owned by the City.....	\$1.00
For fire hydrants owned by the Utility.....	1.50

IT IS HEREBY ORDERED as follows:

1. 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 schedules of rates shown in Exhibit A attached hereto and on not less than five (5) days' notice to the Commission and the public to make said rates effective for service rendered on and after February 15, 1950.
2. That applicant is authorized to withdraw and cancel existing rate schedules superseded by the schedules hereinabove authorized, concurrently with the filing thereof.
3. That applicant within forty (40) days from the effective date of this order shall file with this Commission four sets of a suitable map or sketch drawn to an indicated scale upon a sheet 8 1/2 x 11 inches in size, delineating thereupon by distinctive markings the boundary of applicant's present service area 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 portion thereof.
4. That applicant within forty (40) days after the effective date of this order shall file four copies of a comprehensive map drawn to an indicated scale of not less than 400 feet to the inch delineating by appropriate markings the various tracts of land and territory served and the location of various properties of applicant.

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

Dated at San Francisco, California, this 17th day of

January, 1950.

A. T. Davidson
James F. Calver
Donald H. Russell
Harold H. Kula
Joseph P. Potter
Commissioners.