

ORIGINAL

Decision No. 42721

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of
CALIFORNIA WATER & TELEPHONE COMPANY
to increase rates for water service
in its Sweetwater District.

Application No. 29094

Bacigalupi, Elkus and Salinger by Claude W. Rosenberg
for applicant; Burke, Marshall & Burke by Louis H. Burke
and Stephen E. Robinson on behalf of the City of National
City and the City of Chula Vista; Albert C. Boyer, City
Attorney, on behalf of the City of Chula Vista;
James B. Abbey on behalf of Chula Vista Vegetable
Exchange and Chula Vista Citrus Association; S. W. Shepard,
Secretary, on behalf of Rohr Aircraft Corporation;
Paul M. Sapp, Utilities Officer, on behalf of the
United States Public Housing Administration;
Jean L. Vincenz, Director, Department of Public Works,
on behalf of the County of San Diego.

O P I N I O N

California Water & Telephone Company in this application
seeks authority to increase rates charged for water service rendered
in its Sweetwater District.

Applicant furnishes water service to communities in Monterey,
Los Angeles, and San Diego Counties and renders telephone service in
portions of Los Angeles, Riverside, San Bernardino, and San Diego
Counties. Applicant's water operations in the County of San Diego
constitute its San Diego Bay Division and the territory served is
divided into two parts, namely, the Sweetwater and Coronado Districts.

The Sweetwater District includes the cities of Chula Vista
and National City, together with certain adjoining unincorporated
areas. The number of customers in this district averaged 9,116 during
the calendar year 1948 with water sales about equally divided between
irrigation customers and all other customers, the latter consisting of

domestic, commercial, industrial, and municipal customers. The transmission and distribution system of the district included 827,762 feet of pipe as of December 31, 1948.

Prior to 1948, the principal source of water supply for the Sweetwater District consisted of surface runoff into the Sweetwater River collected and stored in two reservoirs with a storage capacity in excess of 53,000 acre-feet, supplemented by well water drawn from the lower Sweetwater Valley. Sweetwater Reservoir, located about four miles east of the cities of Chula Vista and National City, has a capacity of about 27,700 acre-feet, while Loveland Reservoir, located about 16 miles farther east and upstream on the Sweetwater River, has a capacity of about 25,400 acre-feet. The maximum water stored in both reservoirs, however, was only about 27,000 acre-feet in 1945, 20,000 acre-feet in 1946, and 12,000 acre-feet in 1947. Loveland Reservoir, completed early in 1945, contained a maximum storage of 8,600 acre-feet in February, 1946. This lack of storage is attributed to the fact that the most recent year of heavy runoff was 1941. Runoff characteristics of this area as shown by historical records reveal that infrequent years of runoff several times the average are followed by a number of years of runoff only a fraction of the average. Accepted practice in the area consequently calls for completion of storage projects as much as ten years ahead of the estimated need therefor.

With the continued shortage in rainfall and the growth in population in the district, it became urgent that additional water be obtained from other sources. Consequently, on December 24, 1947, the company entered into an agreement with the San Diego County Water Authority to receive delivery of Colorado River water, to which the cities of Chula Vista and National City were entitled, through facilities of the City of San Diego, pending construction of a 16-mile

transmission line which would effect direct delivery of Colorado River water to Sweetwater Reservoir.

On February 24, 1948, the company entered into an agreement with the cities of Chula Vista and National City, as members of the San Diego County Water Authority, for the purchase and delivery of Colorado River water, and on April 16, 1948, this water was first transmitted directly from San Vicente Reservoir to Sweetwater Reservoir through a branch line known as the La Mesa-Sweetwater Extension. The agreement between the company and the two cities provided for payment of the following charges:

1. A standby charge equivalent to 11% of the gross revenue derived by the company from water sales in its Sweetwater District.
2. A charge equal to that to be paid by the two cities to the San Diego County Water Authority for water delivered.
3. A surcharge by the two cities of \$1 per acre-foot of water delivered.

The initial application in this proceeding was filed on February 16, 1948, and on April 14, 1948, a public hearing was held in National City at which time the company introduced evidence in support of its application to increase rates \$101,300. On May 18, 1948, the Commission issued an interim order (Decision No. 41607) authorizing the requested increase.

On March 28, 1949, the company filed its first supplemental application requesting a further increase in rates and public hearings were held on this supplemental application in San Diego on May 25 and 26, 1949. On July 12, 1949, the Commission issued Decision No. 43121, denying the requested emergency increase in rates, pending thorough consideration of evidence presented by the company, the introduction of evidence by the Commission's staff and the final disposition of the original application. On August 1, 1949, the company petitioned for a

rehearing on its first supplemental application, which was denied by the Commission in Decision No. 43199, dated August 9, 1949.

On September 14, 1949, the applicant filed an amended application setting forth rates estimated to produce additional revenue of \$178,000 annually over and above that derived from interim rates authorized by Decision No. 41607.

Public hearings were held in San Diego on September 27, 28, and 29, 1949, at which time further evidence was presented by the company, other interested parties, and the Commission staff. The matter was submitted for decision on September 29, 1949, subject to the filing of briefs.

Representatives of the cities of National City and Chula Vista, representing all classes of customers, conclude that rates in the Sweetwater District should be substantially lower than would be proper if the quality of service were good, that no class or quantity block rate should be higher than the user can reasonably afford to pay, that any revenue deficiencies arising thereby be not assessed against other users, that the spread of rates between customers of different classes and different quantities in the same class be given the most careful consideration, and that the Loveland Project should be considered as nonoperative. Rohr Aircraft Corporation expresses dissatisfaction with the proposal to charge, for the same volume of water served for industrial use, more than for agricultural use. It contends that the cost of water served and the amount of service rendered to industrial customers is no greater than for other customers and that other neighboring water operations make no such distinction. Agricultural interests, on the other hand, contend that the water system was initially developed to supply irrigation water to the area and that much of the land in the area was sold with the understanding that adequate water supplies would be available. They point out that increases in demand for water have been occasioned by growth in domestic, municipal,

and industrial load, while the agricultural load has remained static for many years. They believe consequently that increased costs resulting from the installation to serve these increased demands should be assessed against classes of service other than agricultural. Recognizing the community of interests of the several classes, the vital necessity to provide adequate supplies of water for the area, the right of the utility to a reasonable return on the capital wisely invested in prudent anticipation of its needs, they suggest that such increase in rates as may be necessary be apportioned uniformly to all customers by applying a uniform surcharge to the rate schedules in effect prior to 1948.

The Commission in this proceeding must establish a schedule of rates which will for the future equitably apportion to each customer a fair share of the reasonable costs of operation. The testimony shows that a number of residential customers are dissatisfied with pressure conditions in certain areas and with the amount of foreign matter contained in the water supplied. Some of these conditions may, according to the testimony, be attributable to the depleted storage resulting from the recent series of dry years, the curtailment of flushing programs as a conservation measure and the commingling of other water supplies. While the utility is under the obligation to supply adequate, safe, and efficient service, the customers are no less obligated to pay the cost of supplying the standard of service which they demand.

Both applicant and the Commission staff submitted estimates of earning position on a number of different bases. Results based upon 1949 estimated operations, average annual purchases of Colorado River water of 3,000 acre-feet and the proposed rates in effect for the full year are summarized as follows:

	Estimated Year 1949			
	Applicant Exh. #24	C.P.U.C. Staff Exh. #53	Applicant Higher Than Staff Amount	Higher %
<u>Revenues</u>	\$ 833,200	\$ 797,300	\$ 35,900	4.31
<u>Expenses</u>				
Other than Taxes & Depr.	292,950	282,700	10,250	3.50
Taxes	192,400	184,900	7,500	3.90
Depreciation (5% SF)	26,100	25,200	900	3.43
Total Expense	511,450	492,800	18,650	3.65
<u>Net Revenue</u>	321,750	304,500	17,250	5.36
<u>Rate Base</u>	6,556,608	6,235,300 ^a	321,308	4.90
<u>Rate of Return</u>	4.91%	4.88%		

The staff report indicated that the 1948 rate of return using recorded figures was 2.70% and the estimated 1949 results, assuming the interim rates effective for the full year, would be 3.70%. The staff also submitted estimates in which the cost of the Loveland Project was excluded from the base and the cost of the average water yield of the project included at the rates charged for Colorado River water. Under those assumptions, the staff showed a return of 5.19% under the interim rates and 7.78% under the proposed rates. The staff did not contend that the project was in fact nonoperative, but pointed out that it has not reached its full productivity since a year of heavy runoff had not occurred subsequent to completion of the project. While the Loveland Project has not produced the amount of annual water supply for which it was planned and has thereby increased the annual costs of water supply in recent years, the estimates of 1949 operations are based upon the purchase of only 3,000 acre-feet of water from the San Diego County Water Authority which is the estimated average annual requirement necessary to supplement applicant's own sources, including the Loveland Project, at its average yield.

Applicant's estimated 1949 revenues exceed those submitted by the staff by \$35,900. Applicant's revenues are based upon 1949 sales

estimated early in the year in connection with its application for an emergency increase in rates and reflect sales under 1949 anticipated conditions. The staff estimate, based upon later recorded sales data, is predicated upon assumed average rainfall conditions. For the purpose of this proceeding, the staff revenue estimate will be used.

The staff expense estimate is \$18,650 less than that proposed by applicant. The difference in production expense of \$7,500 is due primarily to the lesser standby charges for Colorado River water paid to the cities of Chula Vista and National City at the rate of 11% of revenues. A difference of \$7,500 in taxes results from the reduced income taxes estimated by the staff on its lower net income. The difference of \$900 in depreciation expense results from use of slightly lower annuity rates by the staff while the difference of \$2,750 in other expenses is apparently attributable to the staff's use of an average level of operations. The expenses for 1949 on an average basis as estimated by the staff appear reasonable for the purpose of establishing future rates.

In the foregoing tabulation the staff rate base is \$321,308 less than that submitted by applicant. Of that amount, \$308,500 represents deductions from capital of certain items which the staff believes should be excluded from the base. Deductions of weighted average book figures representing Customers' Advances and Donations in Aid of Construction and the Depreciation Reserve for Motor Vehicles and Work Equipment are customary adjustments. A deduction of an allocated portion of General Office and Automotive equipment for applicant's Coronado District has likewise been made properly. The staff presented in evidence a review of some of the records of four nonutility companies affiliated with applicant during the preliminary development of the Loveland Project and from whom applicant ultimately acquired lands and rights and engineering studies relative to the

project. Based upon this study the staff also excluded from rate base an amount of \$44,300 representing costs deemed inapplicable to the project. This exclusion is adopted for the purposes of this proceeding. A comparison of other items in the rate base indicates that the staff estimate of materials and supplies was \$8,000 lower and its estimate of working cash \$38,500 lower than applicant's, while its estimate of fixed capital was almost \$24,000 higher. Applicant's estimate of the amounts included for both materials and supplies and working cash capital were sums deemed properly includible by its principal witness but were not the result of any specific calculation. The witness believed that the working cash capital should approximate $1\frac{1}{2}$ months' operating expenses exclusive of federal income taxes and that no credit should be allowed for taxes accrued ahead of payment. The staff estimates, on the other hand, were based upon the weighted average book balances of materials and supplies applicable to the Sweetwater District and an amount of working cash equivalent to one-twelfth of the annual cost of purchased water and one-sixth of other annual expenses excluding taxes, depreciation, and uncollectible bills, with recognition given to the availability of federal income tax accruals. The staff estimate of fixed capital, on the other hand, differed from that of applicant's, largely because of the method of computing the average used for 1949. Applicant and the staff both used the same capital for the beginning of the year. Applicant added one-half of the estimated net additions for 1949, while the staff developed a somewhat greater figure which reflected the proportion of the year during which the additions were operative, and likewise included the operative construction work in progress. In view of the methods used to develop the bases, it appears reasonable for the purpose of this proceeding to adopt the staff rate base, which includes the Loveland Project. ✓

In view of the fact that under the proposed rates applicant will earn a return of less than five per cent, it does not seem necessary to review the testimony relating to cost of money or rate of return. A review of the record indicates that applicant is entitled to some increase in rates.

We cannot agree with the position taken by the agricultural interests that by reason of long use of the system they have acquired preferential rights to have applicant's lowest cost sources of water supply in effect devoted to their service. On the other hand, the historical rate situation wherein irrigation water has been for years sold at about one-half the rate applicable to other customers and the impact of severe changes in the rate upon the financial condition of the agricultural group, merit serious consideration. From the evidence before the Commission in this record, it appears that the proposed rate for irrigation service is at an appropriate level under present conditions.

If recognition is to be given to the position of the other parties that rates should be such as to compensate applicant fully for the service performed for each of the several classes of customers but that no rate should be higher than justified if each class were defraying its proportion of the costs, it seems appropriate to estimate what revenues would be derived from operations if irrigation sales are priced out at the proposed industrial rate. By reducing the terminal rate of proposed schedules No. 1 and No. 3 to 18 cents for all consumption over 30,000 cubic feet per meter per month, applicant's customers will receive service at the lowest reasonable rates which present conditions warrant. In adopting such schedules, the Commission recognizes that the percentage increases are not uniform throughout the various blocks of consumption. The block size and the rate applicable thereto are functions of average consumption characteristics and

associated service costs. Since these factors necessarily change with the customer development as well as with the variation in sources of supply and variation of operating cost price levels, a uniform percentage change in rate would in most cases be unrealistic.

If the proposed schedules are modified as outlined above, applicant will receive an increase in revenue on an annual basis of about \$163,000 over and above that received from the present interim rates.

O R D E R

California Water & Telephone Company having applied to this Commission for an order authorizing increases in rates in its Sweetwater 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,

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, a schedule 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.

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.

R. Z. Trimmer

Justin J. Calver

Frank D. L. L. L.

Harold P. Kils

Kenneth (Patterson)
Commissioners.

PROPOSED SCHEDULE OF RATES

Schedule No. 1

DOMESTIC, COMMERCIAL AND INDUSTRIAL METERED SERVICEAPPLICABILITY

Applicable to all domestic, commercial and industrial metered water service.

TERRITORY

Within the incorporated limits of the cities of Chula Vista, National City and unincorporated area of San Diego County as delineated on the map included in the tariff schedules as Map No. 1.

RATES

Per Meter
Per Month ✓

Quantity Charge:

First 500 cubic feet or less.....	\$ 2.00
Next 1,500 cubic feet, per 100 cubic feet.....	.30
Next 28,000 cubic feet, per 100 cubic feet.....	.20
Over 30,000 cubic feet, per 100 cubic feet.....	.18

Minimum Charge:

For 5/8 x 3/4-inch meter.....	2.00
For 3/4-inch meter.....	2.50
For 1-inch meter.....	3.00
For 1 1/2-inch meter.....	4.00
For 2-inch meter.....	6.00
For 3-inch meter.....	10.00
For 4-inch meter.....	16.00
For 6-inch meter.....	28.00
For 8-inch meter.....	35.00
For 10-inch meter.....	45.00
For 12-inch meter.....	65.00

The Minimum Charge will entitle the consumer to the quantity of water which that monthly charge will purchase at the quantity rates.

Schedule No. 2

IRRIGATION METERED SERVICEAPPLICABILITY

Applicable to all irrigation service.

TERRITORY

Within the incorporated limits of the cities of Chula Vista, National City and unincorporated area of San Diego County as delineated on the map included in the tariff schedules as Map No. 1.

RATES

Per Meter
Per Month

Quantity Charge:

First	500 cubic feet or less.....	\$ 2.00
Next	1,500 cubic feet, per 100 cubic feet.....	.30
Next	8,000 cubic feet, per 100 cubic feet.....	.15
Over	10,000 cubic feet, per 100 cubic feet.....	.09

Minimum Charge:

For	5/8 x 3/4-inch meter.....	2.00
For	3/4-inch meter.....	2.50
For	1-inch meter.....	3.00
For	1 1/2-inch meter.....	4.00
For	2-inch meter.....	6.00
For	3-inch meter.....	10.00
For	4-inch meter.....	16.00
For	6-inch meter.....	28.00
For	8-inch meter.....	35.00
For	10-inch meter.....	45.00
For	12-inch meter.....	65.00

The Minimum Charge will entitle the consumer to the quantity of water which that monthly charge will purchase at the quantity rates.

Schedule No. 3

GOVERNMENTAL SERVICE & MUNICIPALAPPLICABILITY

Applicable to the cities of Chula Vista and National City, County of San Diego and the Federal Government.

TERRITORY

Within the incorporated limits of the cities of Chula Vista, National City and unincorporated area of San Diego County as delineated on the map included in the tariff schedules as Map No. 1.

RATES

Per Meter
Per Month

Quantity Charge:

First 30,000 cubic feet, per 100 cu.ft.....	\$ 0.20
Over 30,000 cubic feet, per 100 cu.ft.....	.18

Fire Hydrants:

Each, per month.....	3.00
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Sprinkling Hydrants:

Each, per month.....	2.00
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Minimum Charge:

✓ For 5/8 x 3/4-inch meter.....	2.00
For 3/4-inch meter.....	2.50
For 1-inch meter.....	3.00
For 1 1/2-inch meter.....	4.00
For 2-inch meter.....	6.00
For 3-inch meter.....	10.00
For 4-inch meter.....	16.00
For 6-inch meter.....	28.00
For 8-inch meter.....	35.00
For 10-inch meter.....	45.00
For 12-inch meter.....	65.00

The Minimum Charge will entitle the consumer to the quantity of water which that monthly charge will purchase at the quantity rates.