

ORIGINAL

Decision No. 42856

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 public water
service in its Monterey Peninsula
Division.

Application No. 30025

Claude N. Rosenberg and William Hudson for applicant;
A. B. Jacobsen for the County of Monterey; John Redhead
for the City of Pacific Grove; Russell Zaches for the
City of Monterey; Roy A. Wehe for the cities of Monterey,
Carmel and Pacific Grove and the County of Monterey;
Charles Uhl for New Monterey Property Owners' Association;
B. Miller for Neighbors Club of Pacific Grove; Allen Knight
for the City of Carmel and the Carmel Business Association;
Wesley Kergan for Monterey Pacific Chamber of Commerce;
W. Funke for Carmel Valley Property Owners; Homer J. Hoyt
for Monterey Peninsula Garden Club; Alfred S. Balsam for
Carmel Highlands Association; George Clemens for Monterey
Fish Processors Association.

O P I N I O N

On February 1, 1949, California Water & Telephone Company filed its application for authority to increase rates charged for water service in its Monterey Peninsula Division. The Monterey Peninsula Division embraces customers in the cities of Monterey, Carmel and Pacific Grove and adjoining unincorporated territory in the County of Monterey. Besides the Monterey water operations, applicant likewise serves water customers in communities in San Diego and Los Angeles counties and supplies public utility telephone and telegraph service to portions of Riverside, San Bernardino and Los Angeles counties.

Public hearings were held in Monterey on October 3 and 4 and December 14 and 15, 1949, and the matter was taken under submission at the conclusion of the oral presentation.

Water service on the Monterey Peninsula stems from the establishment in 1879 of a source of water supply from wells by Pacific Improvement Company to provide the needs of that company's Hotel Del Monte. In 1884, diversion works on the Carmel River and a transmission line were added to the water supply facilities. In 1907, Monterey County Water Works took over service to customers other than the hotel properties, operations having expanded into Monterey and Pacific Grove. Since 1913, when Monterey County Water Works acquired the distribution system in Carmel pursuant to a decision of this Commission (2 CRC 953), development of service in the area has been under consideration by the Commission in several formal proceedings.

Facilities used to supply the hotel properties were reconveyed to Pacific Improvement Company in 1916, were acquired in turn by Del Monte Properties Company in 1919, by Chester H. Loveland and Central California Water Supply Company in 1930, and California Water & Telephone Company in 1935, at which time the latter company also acquired the public utility properties from the Monterey County Water Works. In disposing of its water facilities, Del Monte Properties Company retained, by contract, the right to 35% of the total supply developed on the Carmel River at a fixed rate for a period of 50 years.

At the end of 1948, applicant delivered water to 12,722 active service connections. Water is diverted from the Carmel River at two storage projects, San Clemente Dam, completed in 1921, which has a capacity of 1,700 acre feet, and Los Padres Dam, with a capacity of 3,200 acre feet, which was completed in 1948. Water is also produced from underground supplies by pumping. In 1948, water produced totaled about 272 million cubic feet, 15% from wells and the remainder from stream diversions. Water from the Carmel River is transmitted by pipeline about 20 miles to Forest Lake Reservoir, which is the main balancing reservoir on the distribution system. The aggregate length of

transmission and distribution piping in the area exceeds 1½ million feet. More than 170 million gallons of distribution storage reservoir capacity is available, and differences in elevation necessitate a number of pressure zones, resulting in a substantial amount of inter-zone pumping. Both filtration and chemical treatment are used in maintaining the quality of the water.

Applicant requests authority to establish rates which it alleges would increase annual revenues about \$65,000. The record shows that Monterey County Water Works was authorized to make a general increase in rates in 1918, which established a rate level that remained in effect until 1937. In that year, as a result of a formal complaint by consumers, the Commission ordered a reduction in quantity rates but authorized increases in minimum charges for larger size meters. The rates established in 1937 are those which applicant now proposes to increase. Applicant directs attention to the general increase in the price level of practically all commodities and services which applicant must use in the operation of its system. The record shows that the various sizes and kinds of pipe and fittings in 1949 cost from 50% to 250% more than the same item cost in 1940. Wage rates paid several different classes of employees show increases during the same period of from 70% to 140%.

Applicant reports the revenues received under the contract with Del Monte Properties Company for the nonutility service separately from its other revenues. For the past several years, the utility operations have shown substantial growth, while the nonutility sales have remained relatively static. Average number of active utility service connections has increased from 9,240 in 1943 to 12,221 in 1948, while the corresponding revenue received from sales to those customers rose from \$380,000 to \$532,000. The average revenue received from residential and commercial customers, however, has shown only a slight

increase, from \$36.05 to \$37.93. During the same period, the recorded expenses charged to maintenance and operations for source of water supply, pumping, purification, transmission and distribution and commercial expense almost doubled, increasing from \$68,000 to \$130,000. The increases in other expenses, such as administrative, taxes and depreciation, were not as great either in amount or per cent, totaling about \$216,000 in 1948 as against \$179,000 in 1943.

In the 1937 proceeding, the Commission adopted a suggestion made by its staff that utility and nonutility operations be considered together and that utility rates be established at such a level as to return to applicant a proper estimated net income assuming utility rates applicable to nonutility service. Utility customers would thereby pay that rate which would be justified if no nonutility contract rates existed.

In the present proceeding, both applicant and the Commission staff presented estimates of applicant's earning position on several bases, including the application of utility rates to the Del Monte contract. The results for 1949 and 1950 under the latter basis, with proposed rates in effect for the full year, are summarized as follows:

	<u>Results of Operations</u>			
	<u>Proposed Rates</u>			
	1949		1950	
	Applicant	CPUC Staff	Applicant	CPUC Staff
Operating Revenues	\$ 687,475	\$ 751,200	\$ 741,540	\$ 763,300
Operating Expenses	193,200	202,963	197,600	202,000
Taxes	154,500	178,000	170,800	180,100
Depreciation	32,400	32,929	33,800	36,700
Total Expense	380,100	413,892	402,200	418,800
Net Revenue	307,375	337,308	339,340	344,500
Rate Base	6,635,000	5,961,800	6,829,000	6,458,000
Rate of Return	4.63%	5.66%	4.97%	5.33%

In the respective 1950 estimates under present rates, applicant computed a return of 4.28% and the staff 4.49%, with filed tariff rates applicable to the Del Monte contract service. Using the rates

specified in the contract, applicant estimated its 1950 return under present rates at 4.10%, and under the proposed rates at 4.75%.

From the tabulation, it is apparent that net earnings as estimated by applicant and the staff do not differ greatly. While the staff estimated that revenues would be about \$22,000 more than estimated by applicant, the increased revenues were largely offset by greater estimated expenses. Differences in the revenue estimates were primarily due to the method of applying the filed tariff schedules to the nonutility contract service. The staff applied the rate as though each present point of service was a separate customer. Applicant, on the other hand, assumed that certain deliveries would be consolidated if utility rates were applicable and made its estimate on the combined deliveries.

The staff rate base is \$371,000 less than that claimed by applicant. The evidence shows that the staff estimate of average fixed capital was \$9,000 greater and its estimate of materials and supplies \$2,000 more than applicant's claim. The staff working cash estimate was \$10,000 less than applicant's and the staff also included an adjustment to remove from rate base Advances and Donations in Aid of Construction and certain property and equipment which the staff considered to be nonoperative.

The working cash estimate claimed by applicant is a judgment figure based upon its witness' knowledge of its needs and would approximate about 1½ months' average expense. The staff estimate is based upon a formula which reflects average operating expenses but includes also a credit for taxes accrued in advance of the payment thereof. We believe the staff estimate is an adequate allowance. The fixed capital adjustments which the staff made by deducting Advances for Construction, Donations in Aid of Construction, and the depreciation reserve on motor vehicles are customary adjustments which are

considered proper. The staff deductions of nonoperative items resulted from examination of the property in the field and of applicant's books and records. The amount of the deduction is a staff estimate of the plant costs allocable to the specific items. We see no reason for disagreeing with the staff adjustments.

Based upon the rates proposed by applicant, it appears that 1950 earnings would be about 5.3% on a rate base reflecting the cost of the properties used and useful in rendering service in the district if the proposed rates were applicable to both utility and nonutility operations.

Applicant's witness estimated that for the year 1950, under present rates, it would earn a return of 4.28% on an undepreciated rate base of \$6,829,000, based on a year of normal precipitation and adjusting its Del Monte revenues to reflect utility rates instead of contract rates, and a return of 4.97% under the proposed rates. Similarly, the staff of the Commission estimated a return for 1950 under present rates of 4.49%, on an undepreciated rate base of \$6,458,000, and of 5.33% under the proposed rates.

The cities and other parties introduced no evidence concerning financial results of operation or of rate of return. It appears to be their position that rates should be kept at the lowest possible level but that applicant is entitled to receive in revenue the cost of rendering service plus a reasonable return.

Applicant operates in several places in the state. In issuing securities, the utility makes provision for its capital requirements in all its districts, and not in one particular district, and it therefore is necessary to refer to its total capital structure. Its outstanding securities and equity capital as of September 30, 1949, (giving effect to an issue of bonds in October) are shown in the following tabulation.

Long-term debt:		
First mortgage bonds	\$12,250,000	56%
Debentures	1,000,000	5
Total long-term debt	<u>13,250,000</u>	<u>61</u>
Preferred stock	4,047,425	18
Equity capital:		
Common stock	\$3,689,250	
Net premium	193,350	
Surplus	<u>653,212</u>	
Total equity	<u>4,535,812</u>	<u>21</u>
Total	21,833,237	100

The depreciation reserve was reported at \$2,925,086 on September 30, 1949.

The common stock consists of 147,570 shares of the par value of \$25 each. The record contains testimony of the terms under which it was issued, the earnings and the dividends paid. It appears that prior to 1943, dividends were paid at varying rates but that for the years 1943 to 1949, dividends were paid in the amount of \$2 annually, being at the rate of 8% of the par value.

In Exhibit 37, the staff of the Commission reported the average effective interest rate applicable to the long-term debt at 3.3% and to the preferred stock at 4.7%. The weighted average rate for the long-term debt, preferred stock and reserves is 3.8%.

A witness called on behalf of applicant testified that with reference to capital raised by applicant between December 31, 1940, and June 30, 1949, (a period of great growth when applicant's capitalization was doubled) the average cost of bond money was 3.25%, of debenture money, 3.89% and of preferred stock money, 4.55%. This witness estimated the over-all cost of money for this period at 4.878%, including in the calculation an allowance for equity capital of 9.83% computed by the use of earnings-price ratios at the time of issue of shares of common stock. He urged the issue of additional shares of stock during 1950 in order to reduce the proportion of long-term debt in applicant's capital structure and gave testimony showing the estimated cost of

capital under pro forma bases, giving effect to additional issues of stock, to be in excess of 5%. A review of the record indicates that applicant during 1950 is faced with construction expenditures estimated to cost in excess of \$2,000,000, including \$398,840 in the Monterey Peninsula Division, and it is clear that it would be desirable for applicant to obtain additional funds through the issue of stock, rather than bonds.

Testimony introduced by interested parties dealt with two general topics. A number of customers testified regarding their experiences with inadequate pressure and poor water quality. The Chief of the Monterey Fire Department likewise submitted the results of a number of tests made by his men respecting the available pressure at fire hydrants throughout the City of Monterey and enumerated certain points in the system which were considered deficient from a fire protection standpoint. With respect to the individual customers' complaints, the filter plant installed in 1947 should eventually remove all of the complaints regarding quality of water, and the pressure deficiencies were the result of developing loads which had temporarily exceeded the installed capability of the distribution system, but which were susceptible of improvement with new construction. The same is true of the deficient pressure in the fire protection system. The testimony indicates that applicant has cooperated with the Fire Department in making certain improvements. There is no question respecting applicant's obligation to maintain adequate and satisfactory service to its customers, and a mutually satisfactory solution to the city's complaints respecting deficient pressure in the several hydrants should be undertaken as a joint responsibility of applicant and the city authorities. It should be pointed out, however, that annual expenses which result from such changes must either be borne by applicant's

customers or paid for by the city; and in developing the improvements to the fire protection system, both applicant and the city should bear this factor in mind.

The official representatives of the cities of Monterey, Carmel and Pacific Grove introduced evidence intended to show that both applicant and the Commission staff had taken a rather pessimistic view of the future potential customer growth in the area. Testimony was offered that the military installation at the former Del Monte Hotel properties was expected to expand from a present complement of about 1,600 people to approximately 4,500 people by 1954, a program which would entail the investment of better than \$30,000,000 in buildings and equipment. Representatives of the fishing and canning industry likewise testified that the lull in processing operations which followed the disappearance of sardines from their usual haunts for the past several years was apparently concluded, since current takings approached the high level of activity experienced during the years from 1935 to 1945, inclusive. As an aid to the Commission's judgment from a statistical standpoint, the building inspectors of the three cities introduced figures showing the number of building permits and the estimated cost of construction in the years 1946 to 1948 and for the first 11 months of 1949. Those statistics are summarized as follows:

Year	Monterey		Pacific Grove		Carmel	
	Permits	Estimated Cost	Permits	Estimated Cost	Permits	Estimated Cost
1946	218	\$1,016,361	177	\$ 829,294	129	\$ 559,307
1947	275	1,330,682	168	1,174,474	193	929,272
1948	505	3,274,735	221	2,246,729	221	1,454,550
1949**	528	2,628,615	154	1,475,756	158	635,130

* Building permits include new residential, new business and alterations.

** 11 months of year 1949.

In view of the conclusion heretofore reached respecting the net revenues and level of earnings to be anticipated by applicant in the area, it seems unnecessary to adjust the estimates to reflect such refinements as the foregoing statistics might indicate to be desirable.

It is apparent that the rates proposed by applicant will not yield a return at a level in excess of that to which applicant is entitled in view of all of the factors in the record by which that return may be tested. It appears, therefore, reasonable that the rates proposed by applicant should be authorized and be made effective in the area.

O R D E R

California Water & Telephone Company having applied to this Commission for an order authorizing increases in rates in its Monterey Peninsula Division, 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, 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 April 1, 1950.

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

Dated at San Francisco, California, this 20th day of February, 1950.

A. J. Anderson
Justus F. Cruesed
Joseph F. Lowell
Harold H. Hulse
Frederick P. Patten
Commissioners.

Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all domestic, commercial, and industrial consumers.

TERRITORY

Entire area served by Monterey Peninsula Division.

RATES

Quantity Charge:		<u>Per Meter</u> <u>Per Month</u>
First	300 cu. ft. or less	\$ 1.40
Next	700 cu. ft., per 100 cu. ft.30
Next	29,000 cu. ft., per 100 cu. ft.25
Over	30,000 cu. ft., per 100 cu. ft.21

Minimum Charge:

For	1/2-inch and 3/4-inch meters	1.40
For	1-inch meter	2.00
For	1-1/2-inch meter	4.00
For	2-inch meter	6.00
For	3-inch meter	10.00
For	4-inch meter	20.00
For	6-inch meter	30.00
For	8-inch meter	40.00

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. 2

MUNICIPAL SERVICE

APPLICABILITY

Applicable to the cities of Monterey, Pacific Grove, and Carmel and to Carmel Highlands and Seaside Fire Districts.

TERRITORY

Entire area served by Monterey Peninsula Division.

RATES

Quantity Charge:

- For sprinkling streets and roads, per 100 cu. ft. . . . \$.24
- For water used at Pacific Grove Municipal Golf Course. . . 75% of General Metered Service Quantity Charge

All other uses at General Metered Service Quantity Charge.

Fire Hydrants:

- Monterey, Pacific Grove, Carmel, Carmel Highlands, and Seaside, per hydrant per month 3.00

Schedule No. 3

PRIVATE FIRE SERVICE

APPLICABILITY

Applicable to all domestic, commercial, and industrial consumers.

TERRITORY

Entire area served by Monterey Peninsula Division.

RATES

Private Fire Service Connections:	<u>Per Month</u>
2-inch and smaller	\$ 2.50
3-inch	3.00
4-inch	4.00
 Fire Service for Sprinkler Systems:	
4-inch connection	10.00
6-inch connection	20.00
8-inch connection	40.00

All water used shall be paid for at General Metered Service rates.

SPECIAL CONDITIONS

Private fire service for sprinkler systems shall be equipped with standard detector type meter or by-pass check valve with pressure alarm system approved by the Board of Fire Underwriters.