

Decision No. 42878**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 cities of Atherton, Menlo Park, Woodside and vicinity.

Application No. 30049

McCutchen, Thomas, Matthew, Griffiths and Greene, by C. E. Finney and Robert M. Brown for applicant; C. L. Longson, City Manager for the City of Menlo Park, James Armstrong, for the City of Menlo Park and Menlo Park Property Owners Association; W. C. Black, City Attorney, for the Town of Atherton; H. L. Churchill; Creed B. Haberlin; John C. Gates; T. B. Molsbergen; Albert Brown as their interests may appear.

O P I N I O N

In this application California Water Service Company requests authority to increase rates charged for water service in its Bear Gulch District. The district embraces customers in the City of Menlo Park, the town of Atherton, the community of Woodside, and adjoining unincorporated areas in southern San Mateo County. Applicant estimates that the proposed rates would increase revenues about \$69,000, or about 16% under normal rainfall conditions at the 1949 level of business, and would yield a return of about 5.7% on its historical cost rate base.

Public hearings on the application were held in Menlo Park on October 31 and November 1, 1949 before Examiner O'Brien and the matter was taken under submission upon the filing of written statements by the City of Menlo Park, Mr. H. L. Churchill, and a reply thereto by applicant.

At the end of 1948 applicant served 6,809 customers in its Bear Gulch District. During 1948 water necessary to supply customer requirements totaled about 1-1/4 billion gallons. About 69% of the supply was purchased from the municipal water department of the City of San Francisco, 25% was obtained from applicant's diversion project on Bear Gulch Creek and the remainder was produced from a well. More than a score of storage tanks and two reservoirs provide storage capacity of almost 1/4 million gallons. The transmission and distribution system totals nearly 790,000 feet of pipe and serves customers located at elevations ranging from sea level to about 800 feet. Pressure requirements to serve such customers require the maintenance and operation of 11 automatic booster pumping stations.

In support of its request for increased rates, applicant points out that the present schedule of rates has been in effect without material change for 20 years. Since then, statistics indicate a sharp increase in costs has occurred and that the upward trend has been most pronounced since the end of the war. The record shows that, comparing the year 1941 with the 12 months ending June 30, 1949, the number of customers has increased 73% and fixed capital 56%. Water consumption as reflected by metered sales was 118% greater than in 1941, producing 109% more gross revenue. However, increases of 132% in hourly wage rates, 272% in local property taxes, 188% in total taxes, and increases in the cost of materials and other services purchased by applicant have resulted in an increase of 242% in operating expenses. As a result, applicant's net revenue declined 10% and the ratio of net revenue to fixed capital showed a 42% drop in this period. Construction costs which are reflected in the increased fixed capital have likewise risen sharply, averaging about 94% above 1941 levels. Eight-inch mains show an increase in unit cost installed of about 100% for cast iron and 97% for steel pipe, and a service and meter now cost about 77% more than in 1941. Fire hydrants reflect a 200% increase.

Both applicant and the Commission staff presented estimates of applicant's earning position under several assumptions as to the level and conditions of operations and for a number of different operating periods.

Based upon operations under assumed average rainfall conditions, average operating costs, 1949 customers, and with both the present rates and the proposed rates in effect for the entire year, the respective estimates compare as follows:

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	\$ 425,450	\$ 438,350	\$ 494,356	\$ 509,527
Operating Expenses	255,975	265,530	255,975	265,530
Taxes	59,181	60,360	85,365	89,170
Depreciation (1)	17,000	12,275	17,000	12,275
Total Expense	332,156	338,165	358,340	366,975
Net Revenue	93,294	100,185	136,016	142,552
Rate Base	2,405,000	2,346,000	2,405,000	2,346,000
Rate of Return	3.9%	4.27%	5.7%	6.08%

(1) 5% Sinking Fund Depreciation Annuity.

The staff revenue estimate under present rates exceeds applicant's estimate by \$12,900. Both witnesses predicated the estimates on historical records, using 1949 actual statistics in so far as they were available when the estimates were made, and estimating the balance of the year 1949 under the conditions as anticipated for the balance of the year. Sales and revenues were then adjusted to an average level which would have resulted if rainfall in 1949 had approximated the long-time average rainfall in the area. Applicant's witness selected the four seasons 1942-1943 to 1945-1946 as representative of unit sales volumes under average rainfall conditions, while the staff witness used statistics for the four calendar years 1943 to 1946. While the average for these four years was somewhat below the long-time average, the

staff witness testified that allowance was made in the estimate for that deficiency. In view of the methods used in the revenue estimates, it appears appropriate to give equal weight to the two studies in reaching a conclusion on the amount of revenue and sales applicant would have experienced in 1949 had rainfall conditions approximated an average level.

The staff estimate of total expenses under present rates, also exceeded applicant's estimate by approximately \$6,000. The difference in estimated costs of source of water supply, pumping and purification is attributable largely to the difference in the estimates of sales and revenues under average conditions. Since equal weight is to be given to the revenue estimates, it is reasonable to accord the same treatment to water supply expense. The estimates of commercial and general and miscellaneous expense when taken together are substantially in agreement and need no adjustment. The staff estimate of transmission and distribution expense was \$3,375 less than applicant's. The difference apparently results from the methods used in deriving an average level applicable to 1949 for this item of expense. The staff estimate will be accepted. Applicant estimated a depreciation annuity which was \$4,725 higher than that proposed by the staff. In 1937 the staff made a study of applicant's depreciation practices and recommended certain depreciation rates which were then adopted by applicant and form the basis for its present estimate. For this proceeding, the staff has again reviewed the depreciation experience and now recommends further decreases in depreciation rates. The staff estimate of depreciation annuity will be adopted.

The staff rate base is \$59,000 less than that proposed by applicant. That differential results from use by the staff of fixed capital figures about \$7,300 greater than applicant's, a fixed capital adjustment \$51,900 higher, and material and supplies and working cash

\$3,000 and \$11,500 lower, respectively. The two principal items of difference result from exclusion by the staff of 153 acres of land which is held for a future reservoir site and from the staff method of allowing a credit in the computation of the working cash allowance for taxes accrued in advance of payment. Other differences arise from minor variations in methods of allocation or in the methods of averaging book figures. The treatment of rate base by the staff is consistent with that heretofore accorded such items by the Commission and will be adopted herein. On the basis of the record in this proceeding and the adjustments to the estimates discussed above, it appears that with the present rates, under average rainfall conditions, applicant in 1949 would have earned about 4.3% on the historical cost of its properties used and useful in the service of water to its Bear Gulch District customers.

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 at 3.86% including those charges which currently are being amortized against the company's income. 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.

The mayor of the City of Menlo Park, in a statement filed in this proceeding, calculates the weighted average yield on applicant's outstanding bonds, preferred and common stock, basing his allowance for common stock on earnings-price ratios, at 5.05%. He concludes that the open market evaluates an adequate return for applicant at 5.05% and that making an allowance for security selling costs, a return of 5-1/4% on the rate base is ample. The statement is predicated on prevailing market prices and the conclusions do not reflect necessarily the costs actually being incurred by applicant to service its outstanding securities. Nor does it include an allowance for moneys represented by depreciation reserves which are being accumulated on the sinking fund basis and require charges against income for interest. The over-all yield as thus developed refers only to the present capitalization. Furthermore, if a rate of return, developed as suggested by the city, were to be adopted it would necessitate use of a rate base which reflected the present value of the properties rather than the historical cost as presented by the staff.

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. Applicant's witness reported that additional common 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 on its investment. We believe that consideration should be given at this time not only to applicant's present financial structure, but also to its need for additional capital and to the desirability of

equity financing. 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 \$47,500. 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 customers.

The City of Menlo Park through its engineer, Mr. James Armstrong, also filed an engineering-economic analysis of the record in which is concluded that for the period 1950-1951 applicant would earn under present rates a return of 5-1/4% on a rate base of \$2,479,400. This conclusion is based upon an estimated increase in customers to 8,870 average for the year 1951, reflecting an increase equal to the average experienced in the four years ending October 31, 1949. Revenues and expenses per customer are based upon consideration of the recorded results from 1943 to October 31, 1949 and are set forth at \$65.25 and \$50, respectively, derived from the most recent four-year average ratios. The report likewise suggests that applicant might find it more economical to dispose of its watershed properties and purchase all of its requirements from the City of San Francisco. A final suggestion made by the city was that water presently sold under contract at cost-plus rates should be sold at the higher regular rate as an added source of income. The estimate presented by the city makes no adjustment for the effect of seasonal rainfall on sales although the record shows that the two are interrelated. Even so, the unadjusted net revenue estimated for 1950-1951 in relation to the rate of return herein found reasonable is insufficient to support the capital additions which would be required to serve the estimated increase in customers. The record also shows that not only is it more economical to supply water from its own watersheds than to purchase

water from the City of San Francisco, but applicant's general manager testified that a slight increase in water rates charged by San Francisco would make attractive economically the installation of further storage and diversion facilities even at the current high level of construction costs. The record shows that the service rendered at the contract rates, which the city suggests be changed, is supplied, not from applicant's distribution system, but direct from pipe lines of the City of San Francisco. Those rates were established by Decision No. 38676, dated February 13, 1946, (46 CRC 347) upon application of applicant herein for authority to increase the rates theretofore in effect.

Mr. H. L. Churchill, a customer appearing on his own behalf, filed a written summary upon conclusion of the testimony, directing the Commission's attention to certain phases of the case upon which he based his objections to an increase. He suggested a possible reduction in expense by a change in commercial practices and use of bimonthly or less frequent billing. During the war many of our California utilities were forced to adopt bimonthly billing because of a shortage of manpower. Since the end of the war many have returned to monthly billing, while others have retained the longer billing period. The result of the practice as an economy measure depends upon operating conditions as well as customer acceptance. Since the return allowed herein is less than that sought by applicant, it is to be expected that a re-evaluation will be made of the possible economies from a change in commercial practices. This customer also suggested that applicant is seeking a return on facilities installed in subdivisions in anticipation of future customers. Under applicant's rules and regulations subdividers advance the cost of piping subdivisions, which advance is repaid as service in the subdivision develops. The unrefunded amounts of these advances stand on

applicant's books as Advances or Donations in Aid of Construction. Both applicant and the Commission staff have excluded such unrefunded amounts from rate base.

Mr. Churchill suggests that increases in cost caused by the necessity of purchasing large quantities of water from the San Francisco system might be more fairly laid at the door of commercial and industrial customers who could in turn pass on such costs to their customers. The Commission has frequently held that no customer or class of customer has a preferential right to any particular advantageous system cost. In establishing schedules of rates from time to time, the Commission is confronted with the task of apportioning system operating costs to classes of customers and to customers within each class as equitably as circumstances permit. Since rate schedules must be devised to reflect customer characteristics of one or more classes of customer, and since it is frequently advisable to make changes in the form of schedules to meet changing operating conditions, uniform percentage changes in billing for particular customers, or even for uniform consumptions, is rarely possible or appropriate. The schedules hereinafter adopted are designed to spread to each of applicant's customers his reasonable proportion of the cost to applicant of providing water service in this district.

The rates herein authorized, which are estimated to produce the increased revenues to which applicant is entitled, differ only in level from those proposed by applicant. The minimum charge will be \$1.70 instead of \$1.75. For consumption between 500 and 3,000 cubic feet per meter per month, the rate will be 29 cents per 100 cubic feet, instead of 32 cents, or three cents less than proposed; the rate for the second block of 27,000 cubic feet will be set at 25 cents, which is the rate proposed; and the terminal rate for consumption over 30,000 cubic feet per month will be set at 20 cents per 100 cubic feet, one cent higher than the proposed rate of 19 cents. Although applicant

offered testimony to the effect that factors contributing to the deterioration of net revenues would continue to be active in the near future, the Commission believes that the rates herein established, coupled with efficient and economical operation on the part of applicant, will produce a proper return on applicant's used and useful properties in the Bear Gulch District 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 Bear Gulch 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 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 April 1, 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 copies of a suitable map or sketch drawn to an indicated scale upon a sheet 8½ 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 7th day of March 1950.

R. E. Anderson
Justice J. Wallace
James H. Russell

Pennington Potter

Commissioner ^{Harold F. Fells} being necessarily absent, did not participate in the disposition of this proceeding.

Schedule No.1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

In the communities of Atherton, Menlo Park and Woodside and the territory immediately contiguous thereto, in San Mateo County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
First 500 cubic feet, or less	\$ 1.70
Next 2,500 cubic feet, per 100 cubic feet.29
Next 27,000 cubic feet, per 100 cubic feet.25
Over 30,000 cubic feet, per 100 cubic feet.20
Minimum Charge:	
For 5/8-inch meter	1.70
For 3/4-inch meter	2.75
For 1-inch meter	4.25
For 1 1/2-inch meter	8.00
For 2-inch meter	12.50
For 3-inch meter	22.50
For 4-inch meter	35.00
For 6-inch meter	70.00
For 8-inch meter	105.00

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

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to fire hydrants attached to the Company's distribution mains for public fire protection.

TERRITORY

In the communities of Atherton, Menlo Park and Woodside and the territory immediately contiguous thereto, in San Mateo County.

RATES

	<u>Per Hydrant Per Month</u>
For fire hydrants owned and maintained by a municipality or district, installed on a water main four inches in diameter, or larger	\$ 1.00
For fire hydrants owned by the Company, installed on a water main four inches in diameter, or larger	1.50
For fire hydrants owned and maintained by a municipality or district, installed on a water main less than four inches in diameter50
For fire hydrants owned by the Company, installed on a water main less than four inches in diameter	1.00
For water drawn from fire hydrants for fire drill purposes, per drill	4.00