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ORIGINAL

Decision No. 43880

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 Stockton and vicinity.	Application No. 30271

Charles E. Finney and Robert M. Brown of McCutchen, Thomas, Matthew, Griffiths and Greene, for applicant; Bill L. Dozier, City Attorney, for the City of Stockton; William Niven, David W. Hendry, J.B. Swan, John P. Chamberlin, Phillip Gums, Mrs. C. S. Hardy, Mrs. J. M. Conrady, Mrs. Elmer Hensen, John Schaefer, Miss Signe Olson and William A. Thompson, as their interests may appear.

O P I N I O N

California Water Service Company in this application seeks authority to increase the rates charged by it for water service in its Stockton District. The district includes customers within the City of Stockton and in adjacent unincorporated territory. Applicant estimated that the proposed rates would increase revenues about $94,000, or approximately 14%, under normal rainfall conditions and at the average volume of business obtaining in 1949. Applicant likewise estimated that the increased rates would yield net revenues of approximately 5.7% on its estimated historical cost rate base.

Public hearings on the application were held in Stockton on October 27 and 28 and November 3 and 4, 1949. The matter was taken under submission on January 30, 1950, subsequent to the filing of written arguments by the applicant and the City of Stockton.

At the end of 1948 the record shows that the Stockton District served an area having an estimated population of 96,500 people. There were 21,642 domestic and commercial customers, 50 industrial customers, and 88 municipal services at the end of 1948. For the year 1948 the Stockton District produced 3.9 billion gallons of water at a maximum daily rate of 21.5 million gallons. The entire water supply is pumped from underground sources through 31 wells located at 22 pumping stations throughout the district. The transmission and distribution system comprises more than 1½ million lineal feet of pipe, and pressure is maintained by means of six elevated steel storage tanks having an aggregate capacity of 2½ million gallons. Additional storage is available in a concrete reservoir having a capacity of 1.8 million gallons. Chemical treatment to maintain water quality involves the addition of both chlorine and other chemicals for the control of bacteria, odor and foreign matter in the water supply.

Applicant, in support of its application, points out that this is the first proposed increase in water rates in Stockton in 36 years. The present company acquired the Stockton system in 1927, and at that time continued in effect rates previously charged for water service. In 1937 and in 1940 water rates were reduced, so that the present rates are substantially below rates which were in effect prior to World War I. In contrast to this trend of rates, applicant directs attention to the increases in operating costs and the decline in the purchasing power of the dollar which has taken place during the past 30 years, and more particularly, the sharp change in these factors which has occurred during and since the end of World War II. It is pointed out that operating expenses in the Stockton District have increased from $211,000 in 1941 to $474,000 for the 12 months ended June 30, 1949, an increase of 125%. This increase in expense is contrasted to the 55% increase in consumers, 67% increase in fixed capital, and 106% increase in volume of sales. Gross revenues corresponding to the increase in volume of sales show a gain from $360,194 in 1941 to $666,778 for the 12 months ended June 30, 1949, or 85%.

When related to unit figures, the gross revenues reveal a gain from $25.25 per customer in 1941 to $30.50 per customer for the last 12 months' period, but the revenues per hundred cubic feet show a 10% decline from 14.1¢ to 12.7¢ per hundred cubic feet. The increase in operating expenses heretofore indicated is related to increases in hourly wage rates of 105%, total taxes of 195%, and local property taxes of 167%. As a result, the increase in net revenues has fallen behind the growth in other economic factors, registering only a 29% increase from $149,103 to $192,654 in the same period. The comparative changes in construction costs which are reflected in fixed capital are illustrated by the increase in the cost per foot installed of six-inch cast iron mains from $1.64 to $3.15, or about 94%, and in eight-inch steel pipe of $1.47 to $2.90 per foot, or about 97%. The cost of a residential service connection has risen from $20.91 to $37.02, or about 77%. Storage tanks have increased in cost from about $48,800 for a half-million gallon elevated steel tank in 1941 to approximately $78,000 at the present time, or 60%. These increased capital costs have an important bearing on the Stockton operation when it is realized that in the five years from 1945 to 1949 about $1,850,000 of new capital will have been added, which amount exceeds the total capital installed in the Stockton District in 1927 at the time the properties were acquired by California Water Service Company.

The record in the proceeding contains estimates of the earning position of the Stockton District made both by engineers for applicant and by engineers on the Commission's staff. The estimates are based upon a number of different assumptions as to level of operating conditions, and for a number of different operating periods.

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 can be summarized as follows.

Estimated Results of Operation
1949 - Average

	Present Rates		Proposed Rates	
	Applicant	CPUC Staff	Applicant	CPUC Staff
Operating Revenues	$ 674,614	$ 690,110	$ 768,526	$ 786,196
Operating Expenses	301,499	292,750	301,499	292,750
Taxes	151,107	161,560	186,793	200,700
Depreciation	35,100	27,127	35,100	27,127
Total Expense	487,706	481,437	523,392	520,577
Net Revenue	186,908	208,673	245,134	265,619
Rate Base	4,305,000	4,308,000	4,305,000	4,308,000
Rate of Return	4.3%	4.84%	5.7%	6.17%

The staff estimate of operating revenues exceeds applicant's estimate of revenues under present rates by approximately $15,000. Both revenue estimates are based upon historical records in so far as such records were available at the time the estimates were prepared. To the recorded revenues received in the early months of 1949 were added estimates of the revenues which would be received under the prevailing rates and anticipated operating conditions for the remainder of the year. Both applicant and the staff adjusted these estimates of revenue to reflect more nearly average rainfall conditions, using as a guide the revenue experienced during a prior period when the aggregate rainfall approximated the long-time average rainfall. For this purpose applicant's witness selected the four rainfall seasons 1942-1943, 1943-1944, 1944-1945 and 1945-1946, while the staff witness used the four calendar years 1943, 1944, 1945 and 1946. Applicant's witness testified that the revenue estimate shown in the foregoing tabulation was derived from an over-all consideration of all recorded revenues classified as residential service. Upon further examination he found that service to a large housing project was included in the statistics and that substantial changes in the consumption at the housing project distorted the results of the adjustment. He testified that if the housing project revenues were removed from the residential statistics, the remaining residential consumption normalized for rainfall, and the housing project consumption added back, a revenue estimate of approximately

$7,000 less than in the foregoing table would result. The staff witness testified that he had not considered the housing project revenue separately in that it was his belief that the housing project consumption would be susceptible to normalization in the same manner as other residential revenues. The staff witness likewise included for a full 12 months the estimated 1949 revenues from customers of the Pacific Gardens system, which were acquired in August of 1949. Applicant's witness included the revenues from these added customers only for the period in which they were actually attached to applicant's system. In view of the fact that the Pacific Gardens system was acquired by applicant as an operating property, it appears desirable to adopt the staff method of treatment of revenues in the 1949 estimate and no injustice will be done applicant provided the expenses and capital are both properly reflected for the full year 1949. Giving consideration to the differences in estimated revenues by classes of service and the differences in method of normalizing for adjustment to average rainfall conditions, and including Pacific Gardens customers' revenues for a full 12 months, it appears that the 1949 average revenue from the Stockton District under the proposed rates would approximate $779,700.

In the foregoing tabulation the total estimates of expenses submitted by applicant and by the staff differ by less than $3,000. Applicant's witness estimated the 1949 average expenses by adjusting his estimate of 1949 actual expenses to reflect primarily the difference in volume of water served under the average year assumption and normalizing certain nonrecurring expenses to spread the effect of those expenses over a number of years. The staff estimate, on the other hand, was predicated upon the average of several years' past experience adjusted to reflect current price and wage levels as well as the estimated average volume of sales under average rainfall conditions. The staff's estimate likewise includes the expenses associated with the operation of Pacific Gardens' system for the entire year 1949, which assumption was used in estimating the revenues. The staff, in connection with its analysis of the application, reviewed the results of a study of depreciation practices made by Commission engineers in 1937. The results of the earlier study were accepted by applicant as the basis for its depreciation provisions subsequent to 1937 and its estimate of depreciation expense in this proceeding was predicated upon the results of that earlier study. The staff has reviewed the subsequent retirement and salvage experience and has concluded that certain changes should be made in depreciation rates which result in a reduced annual provision, using the 5% sinking fund method. The staff estimate of depreciation expense will be adopted for the purpose of this proceeding.

If consideration is given to the respective estimates of operating revenues and expenses, allowances made for expenses connected with the full year operation of the Pacific Gardens' facilities, and appropriate adjustment made to income tax estimates, it is the Commission's conclusion that, based upon 1949 average sales, and assuming the proposed rates to be in effect for the entire year, applicant would have received net revenues of approximately $260,000 which, when related to the rate base computed by the staff, result in a rate of return of approximately 6%.

While the rate bases shown on the foregoing tabulation indicate that the staff estimate exceeds that of applicant by $3,000, the staff rate base includes about $50,000 to reflect the Pacific Gardens system for a full year, indicating a fundamental difference of some $47,000 between the two estimates. Of this amount the principal differences include a $23,000 difference in the estimates of working cash requirements, a $9,000 difference in allocation of joint cost to other districts of the company, a $4,500 difference in nonoperative property, and about $5,500 difference in estimates of average capital. With respect to working cash, both witnesses estimated a gross cash requirement based upon one-twelfth of the annual cost of purchased water and purchased power, and one-sixth of the annual cost of other operating expenses, excluding taxes and depreciation. The staff reduced this requirement to reflect the fact that substantial sums for the payment of taxes are accrued ahead of payment, an adjustment which applicant did not make. The method used by the staff has been followed in many previous cases and it appears that the staff's working cash estimate is adequate in this proceeding. A review of the other items of difference indicates that the staff figures are to be preferred to those submitted by applicant. Since revenues from Pacific Gardens' customers have been included for the full year and the estimates of expenses have reflected a full year's cost of operation, it is appropriate to incorporate in the rate base the capital for that system on a full year basis. As a consequence, the staff rate base as submitted is considered appropriate for this proceeding.

The City of Stockton took an active part in developing for the record a comprehensive presentation of factors which it believed relevant to the proceeding. While it concedes that applicant is entitled to a fair return in order to stay in business, the city contends that the evidence indicates that present rates in Stockton in fact yield that fair return, that the Stockton District has for many years consistently produced more than the company-wide average return, and that as a consequence the company's present application should be denied. Representatives of the city have introduced a number of exhibits relating to the financial aspects of the operations of applicant. The city conceives the proceeding to contain four principal issues, namely, the rate base, the net revenue produced by present and proposed rates, the ratio of those net revenues to rate base, or rate of return, and the determination of the fair and reasonable rate of return for the Stockton District. In making its presentation, the city has largely accepted the evidence presented by the company and the Commission's staff with respect to the first three issues, and has concentrated its efforts principally to a consideration of the rate of return. It takes the position that applicant in 1950 will earn approximately 5% on its investment in Stockton and that such a return is ample.

In reviewing this matter the Commission has considered, among other things, the return on the investment in properties, the financial structure and history, the interest rates and the earnings on stock. Applicant has financed the cost of its properties, in general, through the issue of bonds, notes, preferred and common stock and through the investment of earnings. In issuing securities, it makes provision for its capital requirements in all its districts, and not in one particular district, and consideration accordingly should be given to its total structure. In Exhibit 17, its outstanding securities and equity capital are shown as follows:

Bonds		$16,222,000
Serial notes		420,000
Preferred stock		6,975,000
Equity capital -		
Common stock	$5,250,000	
Surplus	1,581,998	
Total equity capital		6,831,998
Total		$30,448,998

The depreciation reserve was reported at $4,752,293.

The common stock consists of 210,000 shares of the par value of $25.00 each. The record shows that since 1926, except for the year 1931, dividends have been paid in every year at varying rates up to and including 1942. Since that time, dividends have been paid in the amount of $2 annually, being at the rate of 8% of the par value, with average earnings per share of approximately $2.65.

Applicant's witness estimated the weighted average effective interest rate on the outstanding bonds, notes, preferred stock and depreciation reserves being accumulated on the sinking fund basis, at 3.997%, while a member of the Commission's staff estimated the weighted average rate at 3.71%, the difference between the two figures being accounted for by the inclusion by the company witness in his calculation of certain items of discount, premium and expense relating to refunded issues which do not reflect charges currently being made against income. Neither calculation includes an allowance for equity capital, although applicant's witness testified that in his opinion earnings on common stock of not less than $2.75 a share are required in order to sell additional shares of such stock. The City of Stockton, by including an allowance of 8% on the common stock and paid-in surplus, arrives at an over-all cost of capital of 4.49%. To this, it adds an allowance of approximately .5% to arrive at the 5% return it claims is ample. It concludes that with such a return, the earnings on the equity would be in excess of 12%, or an amount equivalent to more than $3 a share, based on the shares outstanding in 1949.

However, consideration must be given to other factors in arriving at the allowable rate of return. Among other things, the company is faced, according to the testimony, with construction expenses during 1950 in excess of $3,000,000 in all its districts, including Stockton, which it hopes to provide, in part at least, through the issue of common stock. Based upon the record before us, the arguments submitted by the parties, and the comprehensive analysis of the several factors upon which the Commission must base its judgment respecting the rate of return to be allowed, we see no reason to depart from our conclusion in Decision No. 43697, Application No. 30270, dated January 17, 1950, wherein the Commission established a schedule of rates for applicant's San Mateo District which was designed to produce earnings at a level of approximately 5.5% rate of return under 1949 conditions. In that decision the Commission indicated that the level of rates therein prescribed would be sufficient to maintain applicant's earnings for that district at an adequate volume for a reasonable period in the future, giving appropriate recognition to applicant's evidence with respect to the continued downward trend of earnings and upward trend of operating expenses and fixed charges. As heretofore indicated, the proposed rates would produce a rate of return in Stockton under 1949 average conditions of approximately 6%. Present rates, on the other hand, would produce a return materially less than 5%. It is apparent that the present rates should be increased, but not to the extent requested. The rates hereinafter authorized will produce revenues approximately $56,000 higher than estimated under present rates, assuming average operating conditions at the 1949 level of business. The increased rates will yield applicant approximately 5.5% return under the 1949 assumptions and such rates are, we believe, sufficient to produce an adequate level of earnings for a reasonable period in the future.

In designing the rates which it proposed to charge in Stockton, applicant suggested changes in blocking as well as changes in the block rates. Applicant proposed to retain the present practice of having a summer rate somewhat lower than the winter rate applicable to equal consumptions. In selecting the rates hereinafter ordered, the proposal to retain winter and summer rates is accepted, and the change in the size of the consumption blocks will be adopted. An initial charge in both the winter and summer rates of $1.05 per month for the first 500 cubic feet will be used. Rates for consumptions in the higher blocks are set at levels somewhat below those proposed by applicant. Instead of a 14% over-all average increase in rates the schedule hereinafter ordered will produce an increase of approximately 8.2%. The percentage increase for various consumptions will vary considerably because of the change in rate blocking which is adopted, the increase for 500 cubic feet being 5% and for higher consumptions ranging from 2.0% to a maximum of 23% under the winter schedule and from 1.4% to a maximum of 17% under the summer schedule.

O R D E R

California Water Service Company having applied to this Commission for an order authorizing increases in rates in its Stockton 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 8½x11 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.

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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. [illegible]

Justus F. Craemer

[illegible]

Kenneth Potter

Commissioners

Commissioner Harold P. Huls, being necessarily absent, did not participate in the disposition of this proceeding.

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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

In the entire area served by the company in its Stockton District.

RATES

	Per Meter Per Month Rate "A"	Per Meter Per Month Rate "B"
Quantity Rates:		
First 500 cu. ft., or less	$ 1.05	$ 1.05
Next 2,000 cu. ft., per 100 cu. ft.	.18	.12
Next 3,500 cu. ft., per 100 cu. ft.	.13	.10
Next 54,000 cu. ft., per 100 cu. ft.	.07	.07
Over 60,000 cu. ft., per 100 cu. ft.	.05	.05

Rate "A" shall apply to water used in the months of January, February, March, October, November and December of each calendar year.

Rate "B" shall apply to water used in the months of April, May, June, July, August and September of each calendar year.

Minimum Charge:	Per Meter Per Month
For 5/8-inch meter	$ 1.05
For 3/4-inch meter	1.75
For 1-inch meter	2.75
For 1½-inch meter	5.00
For 2-inch meter	7.50
For 3-inch meter	13.50
For 4-inch meter	19.00
For 6-inch meter	30.00
For 8-inch meter	45.00

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

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Schedule No. 2

MUNICIPAL FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all water service rendered to municipal fire hydrants.

TERRITORY

In the City of Stockton.

RATES

	Per Hydrant Per Month
For fire hydrants owned by the city	$ 1.00

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Schedule No. 3

DISTRICT FIRE HYDRANT SERVICE

APPLICABILITY

Applicable to all water service rendered to district fire hydrants attached to the company's distribution mains for public fire protection.

TERRITORY

In the fire districts known as the "French Camp-McKinley Fire District," "East Side Rural County Fire Protection District," and "Tuxedo Country Club Rural County Fire Protection District," within the area served by the company in its Stockton District.

RATES

Hydrant Owned by	Size of Hydrant	Type	Per Hydrant Per Month: If Attached to 2" or 2½" Main	If Attached to 3" Main	If Attached to 4" Main	If Attached to 6" Main or Larger
District	2"	Wharf	$0.75	$1.00	$1.25	$1.50
Company	2"	Wharf	1.00	1.25	1.50	1.75
District	2½"	Wharf	1.00	1.25	1.50	1.75
Company	2½"	Wharf	1.25	1.50	1.75	2.00
District	3"	Wharf	-	1.50	1.75	2.00
Company	3"	Wharf	-	1.75	2.00	2.25
District	4"	Standard	-	-	2.00	2.50
Company	4"	Standard	-	-	2.50	3.00
District	6"	Standard	-	-	-	3.00
Company	6"	Standard	-	-	-	3.50

SPECIAL CONDITIONS

The foregoing charges for fire service are based on the following conditions:

1. Hydrants owned by the Fire District will be installed, maintained, painted, inspected and reloacted at the expense of the District. The Company will install and own the tee in the main, hydrant branch and control valve.

2. Hydrants owned by the Company will be maintained by it. The Company will install and own the tee in the main, hydrant branch, valve, bury and hydrant. The District will pay for relocation of any hydrants owned by the Company.

3. Number of outlets in Standard hydrants will be limited to two 2½" outlets.

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Schedule No. 4

PRIVATE FIRE PROTECTION SERVICE

APPLICABILITY

Applicable to all water service rendered for private fire extinguishing service.

TERRITORY

In the entire area served by the company in its Stockton District.

RATES

	Per Month
For each 4-inch connection	$4.00
For each 6-inch connection	6.00
For each 8-inch connection	8.00

SPECIAL CONDITIONS

The above rates are applicable only to private fire extinguishing service to which no connections for other than fire protection purposes are allowed, and, which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the company, and are maintained to the satisfaction of said company. The company may install the standard detector type meter approved by the Board of Underwriters for protection against theft, leakage or waste of water.

If a distribution main of adequate size to serve a private fire extinguishing system in addition to all other normal service does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall be installed at the cost of the applicant.

For water delivered, based on monthly meter readings, "General Use" charges shall apply.