

Decision No. 45919

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, and)
to revise contracts relating to,)
water service in the County of)
Contra Costa.)

Application No. 31431

McCutchen, Thomas, Matthew, Griffiths, and
Greene by Robert Minge Brown for applicant;
Phillips and Avakian by Spurgeon Avakian for
the Committee to Defeat the Water Rate Increase;
John A. Nejedly, City Attorney, for the City of
Walnut Creek; Carl G. Schwarzer and George
Leon for the Idyllwood Improvement Association;
J. L. Knapton for the Crockett Community Council.

O P I N I O N

This is a proceeding initiated by California Water Service Company to obtain authority to increase the rates charged for water service in its Contra Costa District. That district includes the portion of Contra Costa County along the south shore of the Carquinez Straits and Suisun Bay between Oleum and Port Chicago and areas which extend southerly through the Clayton Valley to Clayton and through the San Ramon Valley to Danville. The area served aggregates about 39½ square miles and has a present population of approximately 60,000 people. The initial application in the proceeding was filed on May 25, 1950. Hearings on the application were conducted in Concord on April 26, 27, and May 2, 1951, and concluded on May 3, 1951, in San Francisco and the matter submitted at the close of oral argument.

The present Contra Costa District of California Water Service Company is the outgrowth of a system started in 1887 in the town of Port Costa to supply industrial demands in the area. In 1889 the Martinez system was acquired, and in 1898 the system was incorporated as the Port Costa Water Company. In 1918 the Martinez distribution system was sold to the City of Martinez. The Port Chicago system, started in 1907 by the townsitc developer, was taken over in 1911 by Bay Point Light and Water Company and in 1916 by the Bay Point Utilities Company. California Water Service Company acquired the Port Costa system in 1927 and the Port Chicago system in 1929. At the end of 1927, the fixed capital investment was about \$1,038,000, by the end of 1929 it had increased to about \$1,358,000, and at the end of 1950 to about \$6,550,000, so that the present operators have carried out the installation of about 80% of the plant investment.

Water for the district is obtained from three sources. During the winter and spring runoff, when Sacramento River water is of sufficiently low saline content, water is pumped from Mallard Slough near West Pittsburg, a distance of 7½ miles to the one-billion-gallon Mallard Reservoir. Additional water is pumped from wells in the Government Ranch field south of Clyde and the Galindo and Hollar fields north and west of Concord. These primary sources are supplemented by purchases of water from the Contra Costa County Water District supplied by the Contra Costa Canal of the U. S. Bureau of Reclamation's Central Valley Project.

Untreated water is delivered to oil refineries and steam electric generating plants at Avon and Martinez. For other customers, the water must be filtered and aerated to eliminate odors and foreign matter and treated to neutralize

and reduce bacteriological impurities. The many variations in elevation of the areas in which service is demanded, from sea level to elevation 600, necessitates the subdivision of the system into 23 pressure zones. To supply water to these pressure zones and to overcome friction losses in the long transmission lines, 31 booster pumping stations are required. At the end of 1950, applicant operated almost 1½ million feet of pipe to serve 14,119 customers, and during 1950 sold about 4.1 billion gallons of water. Since 1945, the number of customers has increased 163%, the length of mains 86%, and the volume of water delivered 20%.

Applicant contends that the rates which it is presently allowed to charge for water service, and which have remained at levels established 28 or more years ago, must now be increased because of heavy increases in the cost of equipment, materials, and services which applicant uses in conducting its operations. Its general manager cited the following increases as typical, and estimated the combined effect of all increases at about 100%.

Item	<u>Prewar</u>	<u>Postwar</u>
Mains, 6-inch steel, installed, per ft. \$	1.20 ¹	\$ 2.43 ³
Mains, 8-inch steel, installed, per ft.	1.47 ¹	3.49 ³
Service, metered 3/4-inch, installed, ca.	25.30 ¹	56.18 ³
Pump, booster, complete installation	4,493.00 ²	7,946.00 ³
Tank, elevated steel, 500,000-gal. installed	10,994.00 ¹	22,767.00 ⁴

1 - 1941, 2 - 1943, 3 - 1950, 4 - 1948

The following tabulation compares the estimates of net revenue and return which applicant's engineers and members of the Commission's staff developed from studies of present and future operations in the Contra Costa District under present and proposed rates:

Item	1950 Adjusted		1951 Estimated		
	1950 Recorded	Present Rates	Company	CPUC Staff	
Operating Revenue	\$ 779,303	\$ 829,904	\$ 827,856	\$ 1,224,834	\$ 1,230,965
<u>Operating Expenses</u>					
Operation and Maintenance	512,592	530,259	512,883	577,400	578,995
Taxes	71,523	71,044	68,469	226,255	227,447
Depreciation (5% S. F.)	32,056	32,056	70,100 ¹	36,540	77,100 ¹
Total Operating Expenses	616,171	633,359	651,452	840,195	883,542
Net Revenue	163,132	196,545	176,404	384,639	347,423
Rate Base, Avg. Undeprec.	5,822,000	6,090,000	5,822,000	6,785,000	6,616,000
Rate of Return	2.80%	3.2%	3.03%	5.7%	5.25%

1 - Includes \$6,100 amortization

The staff also presented earnings upon depreciated rate bases (undepreciated base less depreciation reserve) with interest on the depreciation reserve included with the annuity as an operating expense. For the year 1950 adjusted at present water rates, the rate of return by this method is 2.83% and for 1951 estimated at the proposed rates 5.27%.

From the above table, it can be seen that applicant's earnings in 1950 under present rates were about 3%, and that the proposed rates would produce about 5.7% on the rate base estimated by applicant as effective in 1951. In that estimate, the increase in revenue from new customers amounts to about 10%, and the proposed rates would increase revenues about 34%. About one half of the increased gross revenues are absorbed by increased tax liability under the currently effective federal income tax rate of 47%.

The staff's estimate of net revenue by the sinking fund method is \$37,216 less than applicant's. The rate base also is somewhat less, about \$169,000, and the indicated return is 5.25%. The major difference between the estimates of expenses is \$40,560 in the allowance for depreciation and amortization. Applicant's estimate of depreciation expense is based upon factors developed by Commission staff engineers in a 1937 study. For this proceeding, the staff has made a detailed study of the current experience with, and characteristics of, present plant and properties, and its estimate of depreciation and amortization expense is based upon this study.

The difference in estimated rate bases is primarily due to treatment of costs expended in earlier years to develop sources of water supply. The staff has deducted the costs from the capital base, but has included in expenses the estimated annual cost of amortizing such costs.

From this brief discussion of the cost estimates, it is apparent that the present rates in Contra Costa District are insufficient to produce an adequate return, and that the increased rates proposed by applicant will not yield more than a reasonable return on the district rate base.

The filing of this petition by applicant prompted a substantial customer opposition. A large proportion of applicant's customers signed statements urging this Commission to deny applicant any rate relief, on the basis that rates were already much higher than in comparable communities and adjoining service areas. The Board of Supervisors of Contra Costa County filed its resolution of September 11, 1950, with the Commission, stating that in the opinion of the Board the increases were not merited, that they would tend to increase the cost of living, and that they should be denied by the Commission.

Although notices of hearing were sent to all interested parties, specific presentation in opposition was made by those parties heretofore listed as appearances. The City of Walnut Creek, through its City Attorney, took an active part in the proceeding by presentation of exhibits and testimony and by participation in cross-examination. Generally speaking, the City contended that applicant should not be granted an increase until it improved the quality of water served, increased the efficiency of its operating practices, and established a system of rates which would treat customers with greater equity. In this connection, it urged that the lower separate schedule of rates for the Port Chicago area be eliminated, that wholesale rates to the City's own distribution system be designed to produce the same level of net return for the City as that allowed to applicant, and that applicant's proposed alternate service charge type of rate be adopted.

Home owners in the area were represented by the Chairman of the Committee to Defeat the Water Rate Increase. This committee was sponsored by a number of neighborhood improvement associations, the cities of Walnut Creek and Concord, the chambers of commerce of those areas, and the Contra Costa Realty Board. It was the contention of this committee that present rates are extremely high and that the proposed rates are exorbitant, based upon general knowledge of rates in other areas and not upon the costs incurred by applicant to supply the service. The committee surveyed the water bills in Eldorado Park, a portion of the Pleasant Hills area. These subdivisions are solidly built up under the currently familiar mass subdivision type of development, and consist of lots approximately 1/4 acre in size with houses in the \$10,000-\$11,000 class.

Water is used for the usual household requirements and for garden irrigation of lawns and shrubbery. In a group of 65 consumers, four supplied part of their requirements from private wells. The average annual bill of those taking all of their requirements from applicant was \$73.63, an average monthly bill of \$6.14. The committee contended that rates as high or higher than those presently in effect tended to restrict the landscaping in the area and detracted from the value of property in the community. Such rates also fostered installation of private wells and the formation of districts to distribute raw water for garden usage from the Contra Costa Canal to residential areas in the vicinity. Because the rates of the neighboring East Bay Municipal Utility District are more favorable than those charged by applicant, there is considerable local sentiment in favor of expanding the District's service area and substituting its service for that of applicant.

It was also suggested that this application for increases in rates be denied and that applicant seek to improve its earnings in other districts. Customers contended that the relatively high level of present Contra Costa rates, if raised, would induce extreme hardships on Contra Costa customers, and that perhaps such hardships would not be created by increases in other areas.

While all of the contentions suggested by the parties to the proceeding merit very careful consideration, it appears that the continued ability of applicant to meet the expanding demands of its present customers and to supply the needs of the large numbers of new customers who are building in the area is at least one of the most important single factors in continuing community development. If the rate of that development is to be maintained under present inflated price levels, as it gives every indication of being, then the impact of rising prices on utility costs would

seem to require the same recognition as reflected in the price of lots, homes, street work, and other physical elements of the area expansion.

Applicant proposes to withdraw and cancel all flat rate service except its presently effective fire protection schedules. In the original filing, applicant proposed increases in both the quantity rates and minimum charges of its present form of meter rate. It also proposed to retain a level of rates in its Port Chicago service area different from that applicable to the remainder of the Contra Costa District.

As a part of the evidence submitted herein, applicant furnished a summary of the results of an allocated cost of service study. That study, based upon revenues and expenses of the year 1950 adjusted, indicated that system costs, including return on capital, exceeded revenues by 35%. The unit cost of water varied considerably by classes of customer and by location. In the Port Chicago system, the customer cost was shown to be \$2.42 per month, to which demand costs of 14.8 cents and supply costs of 2.3 cents per 100 cubic feet are additive. The average cost to serve all other residential and commercial customers was computed at \$2.32 per month, plus 16.3 cents demand cost and 10.5 cents supply costs per 100 cubic feet.

As a result of this analysis and in consideration of the adverse effect on load factor of the diversion of garden irrigation requirements to direct supply of raw water from the Contra Costa Canal, applicant proposed an alternative service charge form of schedule at the hearing. Applicant asserted that it had designed the service charge form of schedule to reflect the results of the cost analysis in spreading the cost of service, but with the objective of producing about the same level of revenue as would be

derived from the minimum charge form of rate proposed in the application. The record shows that estimated 1951 revenues, with the service charge form of rate, would be \$9,484 less than the proposed minimum charge form.

The following tabulation indicates typical comparative differences between the present and proposed rates at a number of representative consumptions:

Monthly Bill
Basic 5/8-inch Meter

Consumption: Cubic Feet:	Main System			Port Chicago System		
	Present: Rates	Proposed Rates	Min. Chg.: Serv. Chg.:	Present: Rates	Proposed Rates	Min. Chg.: Serv. Chg.:
0	\$ 1.25	\$ 2.00	\$ 2.10	\$ 1.25	\$ 1.75	\$ 2.10
100	1.25	2.00	2.38	1.25	1.75	2.27
400	1.40	2.00	3.20	1.25	1.75	2.76
1,000	3.50	4.94	4.85	2.50	3.43	3.75
2,000	7.00	9.84	7.60	4.50	6.23	5.40
3,000	10.00	14.74	10.35	6.00	9.03	7.05
5,000	16.00	21.94	15.85	9.00	13.23	10.35

From the foregoing tabulation, it is apparent that under prevailing rate practices it is not now possible to implement the City of Walnut Creek's proposal to remove the existing rate differentials between Port Chicago customers and all other customers. The use of rates embodying a "readiness to serve" charge, however, does tend to reduce the existing differentials.

Applicant supplies raw and finished water to a number of large industrial customers. At the time the application was filed applicant served such customers under special contracts at rates differing from filed tariff rates. The effective contracts had been authorized by this Commission. Subsequently, applicant canceled its special contracts for finished water and has since billed such customers at filed tariff rates. Applicant intends to apply the proposed rates to such customers when authorized. It seeks authority to increase the rates applicable to raw water service under the existing special contracts for such service. The present rates make a distinction in charge

for water obtained by the company from the river and water obtained from the canal. The distinction is made in the commodity charge portion of the rate. In the proposed rate applicant is increasing the Delivery Charge a straight 20% in each consumption block and is substituting for all consumptions a commodity rate equal to the rate paid by applicant to the Contra Costa County Water District for canal water deliveries. It should be noted in this connection that the Port Chicago system is entirely separate from the rest of the district and has its own production, storage, and distribution facilities. The water treatment problems are considerably simpler. An emergency standby interconnection between the two systems is maintained. Typical bills for representative consumptions are shown in the following tabulation:

Industrial Service

Monthly Bills for
Raw Water Deliveries

Quantity Gallons	Present Rates		Proposed Rates:
	River Water	Canal Water	All Water
100,000	\$ 4.00	\$ 5.72	\$ 6.22
500,000	20.00	28.60	31.10
1,000,000	40.00	57.20	62.20
5,000,000	200.00	286.00	311.00
10,000,000	400.00	572.00	622.00
50,000,000	1,350.00	2,410.00	2,565.00
100,000,000	2,350.00	4,520.00	4,775.00
200,000,000	4,350.00	8,740.00	9,195.00

The staff estimates that the proposed raw water rates would, if applicable, produce an increase of about \$15,600 in 1951, an increase in such revenues of about 17.4%.

Under the circumstances, it appears appropriate to authorize applicant's proposed rate changes, including the alternate schedules of rates sought in the application herein, that is, those in which the service charge is set out distinctly from the commodity charge.

Particularly under the conditions which prevail in this district, it is believed that this type of rate structure will prove less discriminatory between classes of users than would the type of rate structure presently in effect and which was originally proposed by applicant to be continued in effect.

Applicant made an oral request that it be authorized to prorate the billings rendered during the first billing period after the effective date of the new rates upon the basis of the average daily consumption established by the first meter reading subsequent to that effective date in order to avoid the necessity of reading all the meters on the effective date. This procedure appears reasonable and may be followed by the company.

O R D E R

California Water Service Company, having applied to this Commission for an order authorizing certain increases in rates and charges in its Contra Costa District, public hearings 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 and that the existing rates, in so far as they differ from the rates herein prescribed, are unjust and unreasonable; therefore,

IT IS HEREBY ORDERED as follows:

1. 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 schedule of rates shown in Exhibit A attached hereto and, after not less than five (5) days' notice to the Commission and the public, to make said rates effective for service rendered on and after August 1, 1951; and concurrently to cancel existing rate schedules superseded by the schedules hereinabove authorized.

2. Applicant, within forty (40) days from the effective date of this order, shall file with this Commission four (4) sets of rules and regulations governing customer relations applicable to its entire Contra Costa District, each set of which shall contain 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.
3. 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.

IT IS HEREBY FURTHER ORDERED that applicant is authorized to revise existing contracts with certain industrial consumers for the supply of raw or untreated water, and to incorporate therein the schedule of charges shown in Exhibit B attached hereto and, after such notice as may be required by the provisions of each of the several contracts, to make said rates effective for such service rendered thereafter but not earlier than on August 1, 1951. Each such revised contract shall be prepared in conformity with Paragraph X-A of the Commission's General Order No. 96 and, within thirty (30) days after the execution thereof, applicant shall submit two copies of each revised contract for filing.

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

Dated at San Francisco, California, this 3rd day of

July, 1951.

Justus J. Coe
Harold H. Hill
Francis H. Patton
John T. McCall
 Commissioners.

EXHIBIT A
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Schedule No. 1

GENERAL METERED SERVICE

APPLICABILITY

Applicable to all water service furnished on a metered basis.

TERRITORY

In the unincorporated town of Port Chicago, Contra Costa County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Readiness-to-Serve Charge:	
For 5/8-inch meter.....	\$ 2.10
3/4-inch meter.....	2.40
1-inch meter.....	3.00
1 1/2-inch meter.....	4.50
2-inch meter.....	6.20
3-inch meter.....	20.00
4-inch meter.....	30.00
6-inch meter.....	41.00
8-inch meter.....	59.00
10-inch meter.....	80.00

Quantity Rate:

For all water delivered; per 100 cu. ft. 0.165

The Readiness-to-Serve Charge is a service charge applicable to all metered service and is to be added to the monthly charge computed at the Quantity Rate.

EXHIBIT A
Page 2 of 6

Schedule No. 2

GENERAL METERED SERVICEAPPLICABILITY

Applicable to all treated water service furnished on a metered basis.

TERRITORY

In the entire area served by the Company in its Contra Costa District, except Port Chicago, in Contra Costa County.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Readiness-to-Serve Charge:	
For 5/8-inch meter.....	\$ 2.10
3/4-inch meter.....	2.40
1-inch meter.....	3.00
1 1/2-inch meter.....	4.50
2-inch meter.....	6.20
3-inch meter.....	20.00
4-inch meter.....	30.00
6-inch meter.....	41.00
8-inch meter.....	59.00
10-inch meter.....	80.00
12-inch meter.....	110.00
Quantity Rates:	
For the first 30,000 cu.ft., per 100 cu.ft.	0.275
For all over 30,000 cu.ft., per 100 cu.ft.	0.20

The Readiness-to-Serve Charge is a service charge applicable to all metered service and is to be added to the monthly charge computed at the Quantity Rates.

Schedule No. 3

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

In the unincorporated town of Port Chicago, Contra Costa County.

RATES

	<u>Per Month</u>
For each fire hydrant.....	\$ 1.50

SPECIAL CONDITIONS

All other public uses at "General Metered Service" rates.

Schedule No. 4

PUBLIC FIRE HYDRANT SERVICE

APPLICABILITY

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

TERRITORY

In the entire area served by the Company in its Contra Costa District, except Port Chicago, in Contra Costa County.

RATES

	<u>Per Month</u>
For each 2-inch fire hydrant.....	\$ 1.25
For each 3-inch fire hydrant.....	1.75
For each 4-inch fire hydrant.....	2.50
For each 6-inch fire hydrant.....	3.00

SPECIAL CONDITIONS

All other public uses at "General Metered Service" rates.

EXHIBIT A
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Schedule No. 5

PRIVATE FIRE PROTECTION
OTHER THAN PRIVATE AUTOMATIC FIRE SPRINKLER SERVICE

APPLICABILITY

Applicable only to private fire protection services to which no other connections may be attached except $1\frac{1}{2}$ -inch and 2-inch hose connections and/or standpipes or hydrants 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.

TERRITORY

In the entire area served by the Company in its Contra Costa District, in Contra Costa County.

RATES

	<u>Per Month</u>
2-inch connection.....	\$ 2.50
$2\frac{1}{2}$ -inch connection.....	2.75
3-inch connection.....	3.00
4-inch connection.....	4.00

SPECIAL CONDITIONS

Connections must be entirely separate from any other service.

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 separate fire protection system for inside hose connections and fire hydrants only, 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 Metered Service" rates shall apply.

EXHIBIT A
Page 6 of 6

Schedule No. 6

PRIVATE AUTOMATIC FIRE SPRINKLER SERVICEAPPLICABILITY

Applicable only to a private automatic fire sprinkler 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.

TERRITORY

In the entire area served by the Company in its Contra Costa District, in Contra Costa County.

RATES

	<u>Per Month</u>
4-inch connection.....	\$ 4.00
6-inch connection.....	6.00
8-inch connection.....	10.00
Each 1½-inch or under inside hose connection..	.50
Each 2-inch inside hose connection.....	.75

SPECIAL CONDITIONS

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 automatic 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 Metered Service" charges shall apply.

If not otherwise provided for, each private fire hydrant owned and attached by the consumer to a private automatic fire sprinkler service shall be charged for monthly at the same rate as charged for a public fire hydrant.

EXHIBIT B

SCHEDULE OF CHARGES APPLICABLE TO UNTREATED WATER
PURCHASED UNDER SPECIAL CONTRACT CONDITIONS

DELIVERY CHARGE

	<u>Per Month</u>
For the first 10,000,000 gals., per million gals.....	\$ 30.00
For the next 10,000,000 gals., per million gals.....	24.00
For the next 10,000,000 gals., per million gals.....	18.00
For all over 30,000,000 gals., per million gals.....	12.00

COMMODITY CHARGE

For water acquired by Water Company from Canal Service or for water obtained by Water Company from sources other than Canal Service, including water from Mallard Slough, consumer shall pay Water Company at a rate equivalent to the cost to Water Company of water delivered to it as Canal Service by Contra Costa County Water District.