

ORIGINAL

Decision No. 47375

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 Livermore)
and vicinity.)

Application No. 32883

McCutchen, Thomas, Matthew, Griffiths & Greene,
by Robert M. Brown, for applicant; Richard M.
Callaghan, City Attorney, for City of Livermore,
interested party; John Power and C. G. Ferguson,
for the Commission staff.

O P I N I O N

California Water Service Company, by the above-entitled application filed November 8, 1951, seeks an order of this Commission authorizing increased charges for water service rendered by it in the city of Livermore and vicinity in Alameda County.

A public hearing in the matter was held before Examiner Emerson on May 14, 1952 at Livermore. No one present at the hearing came forward to register any objection to an increase in water rates or to indicate any dissatisfaction with the service presently rendered.

Rates, Present and Proposed

Presently effective rates provide for approximately 99.1% of the service on a metered basis. Flat rates are applicable only to fire protection service. Excluding fire hydrants, 1,979 connections were served in 1951. Present rates were made effective April 1, 1949 and were authorized by this Commission's Decision No. 42536 in Application No. 29488. By such decision the rates were

equitably spread between classes of service and proportionate users within each class. Applicant proposes no substantial change in such spread. Based on water use tables for 1950 consumptions it is estimated that the over-all revenue increase which would result from the proposed rates would be approximately 24.8%. On the average, a typical residential consumer would receive an increase of about 65 cents per month, under the proposed rates.

A comparison of bills for typical usages under present and proposed rates is shown as follows:

Metered Service:		Monthly Bill		
Consumption	Present Rate	Proposed Rate	Per Cent Increase	
0-400 cu. ft.	\$ 1.00 (Min.)	\$ 1.50 (Min.)	50	%
600 " "	1.40	1.93	37.9	
800 " "	1.80	2.36	31.1	
1,000 " "	2.20	2.79	26.8	
2,000 " "	4.20	4.94	17.6	
3,000 " "	6.20	7.09	14.4	
5,000 " "	8.60	10.29	19.6	
10,000 " "	14.60	18.29	25.3	
50,000 " "	61.10	78.29	28.1	
100,000 " "	117.35	148.29	26.4	
500,000 " "	567.35	708.29	24.8	

Description of the System

Livermore District of applicant is one of 21 operating districts. Originally it was supplied by diversions from local streams. In 1896 the Livermore Water and Power Company was organized to augment the water supply, and in 1913 the system was sold to Pacific Gas and Electric Company. Applicant acquired the system in 1927. At the end of 1951 about 7,400 persons resided in the Livermore District and, as above mentioned, applicant served 1,979 water connections, plus about 80 fire hydrants.

The system's water supply is now obtained from six wells which in 1951 produced about 298,348,000 gallons of water. Storage facilities consist of one concrete reservoir and three wood tanks

of an aggregate capacity of 601,000 gallons. At the end of 1951 the transmission and distribution system consisted of about 187,666 feet of pipe, 79% of which was of 4-inch or larger diameter.

System Growth and Construction Cost Trends

Since 1945 the entire system has experienced a rapid and accelerating rate of growth. Active service connections have increased 54%, 20% in 1951 alone. Length of mains has increased 40.3% with extensions aggregating a 13% increase during 1951. Water production has also increased, by about 24.2% since World War II.

The increase in customers has required continual expansion of plant facilities at ever increasing costs. In the past three years gross additions to Livermore plant have totaled \$178,000. In the year 1952, in which 302 new customers are expected to be added to the system, it is estimated that gross additions will exceed \$117,000.

The cost of developing an adequate quantity and quality of water in Livermore greatly exceeds similar costs in other areas. An aeration and filtering plant installed on a newly developed well cost in excess of \$42,500. Whereas in 1948 approximately \$250 of capital construction was required for each customer, in 1951 each new customer added to the system required \$380 as a construction expenditure which raised the over-all average capital per customer to more than \$280. It is estimated that costs in the year 1952 will increase the average capital cost to \$320 per customer and add an additional 15%. Further, on a company-wide basis in 1951 an investment of \$172 per million gallons of water produced sufficed, whereas in Livermore such investment approaches \$467 per million gallons produced. Such trends are occasioned primarily by the physical difficulties of obtaining an adequate supply and the naturally poor quality of water available from many of the underground sources in

the area. Other contributing factors are, of course, the continually upward spiraling of material and labor costs being experienced by the utility as well as other industries and the individual. In the postwar years applicant has been faced with meeting the demands of six system-wide wage increases.

Financing of Properties and Expansion

In meeting its capital requirements through the issuance of securities, applicant seeks to provide for all of its plants and not for one particular system or district. In general it has financed its investment in plant through the issue of bonds, notes, preferred stock and common stock. It also has used its depreciation reserve monies and earned surplus. As of the end of 1951 its capital structure consisted of 56.4% long term debt, 20.3% preferred stock and 23.3% common stock and surplus.

The presently outstanding first mortgage 3½% bonds, issued during the period 1945-1950, have an over-all effective interest rate of 2.98%. The first mortgage 3-5/8% bonds now outstanding, issued in 1951, have an effective interest rate of 3.69%. Outstanding shares of preferred stock carry cumulative dividends as follows:

Series C, issue of 1945	4.4 %
Series D, issue of 1948	5.3
Series E, issue of 1949	5.28
Series F, issue of 1950	5.36

The common stock, on which \$2 per share dividends have been paid each year since 1942, has had a steadily declining market value in the postwar years. Its market price was at a high of \$44 in 1946. In 1951 its high point was \$28.75 and its low was \$25.50. The par value is \$25.

Applicant's stock is widely distributed. No single stockholder owns as much as 2% of the total shares. From the rate and earning viewpoint its standing in the money market must be on at

least the same level as other utilities of like characteristics or it may not be able to obtain the amount of capital so necessary to the financing of its ever expanding growth in plant. In passing upon the present proceeding, the Commission must consider, among other things, not only the historical cost of capital but also the maintenance of applicant's earnings at such point as will enable it to raise additional capital.

Rate Base

In developing a rate base on which applicant may be entitled to earn a return, applicant used as a starting point the same fixed capital and methods heretofore established or followed by the Commission's staff of engineers. Depreciated rate bases were developed from the weighted average undepreciated rate bases by deducting the depreciation reserve requirements on a $4\frac{1}{2}\%$ sinking fund basis as of the beginning of the period. In this latter connection, applicant by letter agreement with the staff, dated March 20, 1952, adopted the $4\frac{1}{2}\%$ sinking fund remaining life method of depreciation accounting and correspondingly altered its books of account thereto as of January 1, 1952.

For the year 1951 applicant derived a depreciated rate base of \$399,114 while the staff derived a corresponding base of \$399,563. The depreciated rate bases of applicant and staff, for the estimated year 1952, are \$480,881 and \$483,000, respectively. The differences are so minor, in view of the known expansion needs clearly set forth in the record herein, that acceptance of the higher bases is entirely warranted. We shall, therefore, adopt them for the purposes of this rate proceeding.

Operating Revenues and Expenses

As in its development of rate base applicant, in the main, adopted Commission staff procedures in adjusting its results of past

operations and in estimating most of its future operating expenses. There is, therefore, no substantial disagreement between the results of operations as presented by applicant and the staff.

For the adjusted year 1951 and the estimated year 1952, on a modified sinking fund basis in which $4\frac{1}{2}\%$ interest on the depreciation reserve is included as an operating expense, the respective presentations for the Livermore District are summarized as follows:

	Adjusted : Operating Revenues :		Operating Expenses :	
	Year 1951: Present Rates:	Proposed Rates:	Year 1951: Present Rates:	Proposed Rates:
Applicant	\$74,566	\$93,091	\$57,643	\$67,713
Staff	74,566	93,091	58,374	68,367

	Estimated : Operating Revenues :		Operating Expenses :	
	Year 1952 : Present Rates:	Proposed Rates:	Year 1952 : Present Rates:	Proposed Rates:
Applicant	\$85,520	\$106,701	\$65,921	\$77,431
Staff	84,600	105,555	66,380	77,683

With respect to revenue estimates it is noted that the staff used a projection based upon an average amount per residential customer. Applicant apparently used an average amount per total customers. In any event the difference is relatively small and well within the limits of accuracy inherent in such estimating. We shall adopt \$85,000 and \$106,000 as being reasonable estimates of 1952 revenues at present and proposed rates, respectively.

The above-mentioned differences in revenue estimates account for the differences apparent in operating expenses since the income tax expense calculation is directly affected thereby. For the purposes of this proceeding we shall adopt as reasonable estimates of operating expenses for 1951 adjusted, \$58,000 at present rates and \$68,200 at proposed rates, and for 1952, \$66,200 and \$77,600 at present and proposed rates, respectively.

Net Revenues and Rate of Return

The above-adopted revenues, expenses and rate bases indicate rates of return as follows:

Item	Adjusted Year 1951		Estimated Year 1952	
	Present Rates	Proposed Rates	Present Rates	Proposed Rates
Operating Revenues	\$ 74,566	\$ 93,091	\$ 85,000	\$106,000
Operating Expenses	58,000	68,200	66,200	77,600
Net Revenues	16,566	24,891	18,800	28,400
Rate Bases (Deprec.)	399,563	399,563	483,000	483,000
Rates of Return	4.15%	6.23%	3.89%	5.88%

It is apparent, from the above tabulation, that applicant is faced with a declining rate of return. Obviously applicant cannot enjoy increased rates for the full year of 1952. By the time new rates will have been effective for a full year, additional facilities will have been installed. It is reasonable to expect that because of the downward trend apparent above, applicant will realize a rate of return in the range of 5½% to 5-¾% in any near-future period under the rates proposed.

Conclusion

It is apparent from the evidence that the present rates will yield inadequate income from future service rendered in Livermore. The record likewise indicates that the net return which applicant will receive from its increased rates will not be unreasonable. The requested rates will be authorized.

ORDER

California Water Service Company having applied to this Commission for an order authorizing increases and charges for water service rendered in Livermore and vicinity, Alameda County, a public hearing thereon 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 therefrom, are unjust and unreasonable, therefore,

IT IS HEREBY ORDERED that applicant is authorized to file in quadruplicate with this Commission the schedules of rates attached hereto as Exhibit A, in conformance with General Order No. 96, and, after not less than five (5) days' notice to make said rates effective for service rendered on and after August 1, 1952, more particularly as follows:

1. Billings under Schedule No. 1, General Metered Service, shall be determined by the regular meter reading next succeeding August 1, 1952 and shall be prorated on the basis of the average daily consumption established by said succeeding meter reading.

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

Dated at San Francisco, California, this 30th day of June, 1952.

R. E. Davidson
President.

Harold P. Hull

Herbert P. Potter

Edw. E. Mitchell

Commissioners.

Commissioner Justus F. Graener, 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 City of Livermore, Alameda County, and in the vicinity thereof.

RATES

	<u>Per Meter</u> <u>Per Month</u>
Quantity Rates:	
For first 400 cubic feet or less	\$1.50
For next 2,600 cubic feet, per 100 cubic feet215
For next 27,000 cubic feet, per 100 cubic feet16
For over 30,000 cubic feet, per 100 cubic feet14
Minimum Charge:	
For 5/8-inch meter	\$ 1.50
For 3/4-inch meter	2.00
For 1-inch meter	2.90
For 1½-inch meter	5.25
For 2-inch meter	8.00
For 3-inch meter	14.50
For 4-inch meter	22.50
For 6-inch meter	40.00
For 8-inch meter	62.00

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

FOR MUNICIPAL USE (FIRE HYDRANT SERVICE)

APPLICABILITY

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

TERRITORY

In the City of Livermore, Alameda County, and the vicinity thereof.

RATES

For fire hydrant service, including water required for flushing sewers, each, per month \$2.00

SPECIAL CONDITION

1. All other public uses at Schedule No. 1, "General Metered Service", rates.

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Schedule No. 3

PRIVATE FIRE PROTECTION SERVICEAPPLICABILITY

Applicable only to a private fire protection 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 Livermore District, in Alameda County.

RATES

	<u>Per Month</u>
1½-inch connection	\$ 3.00
2-inch connection	3.50
3-inch connection	10.00
4-inch connection	16.00
6-inch connection	20.00
8-inch connection	25.00
10-inch connection	35.00

SPECIAL CONDITIONS

1. The Company may install the standard detector type meter approved by the Board of Underwriters for protection against theft, leakage or waste of water.
2. 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.
3. Where meters are installed, water delivered will be billed for on monthly meter readings at the quantity rates set forth in Schedule No. 1, "General Metered Service".