

ORIGINAL

Decision No. 47608

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 authoriz-  
ing it to increase rates charged for  
water service in the City of Hanford  
and vicinity.

}  
} Application No. 32880  
}

McCutchen, Thomas, Matthew, Griffiths & Greene,  
by Robert Minge Brown, for applicant; John Power  
and C. G. Ferguson, for the Commission staff.

O P I N I O N

By this application, filed November 8, 1951, California Water Service Company seeks authority to increase rates and charges for water service rendered in Hanford and vicinity, Kings County.

A public hearing in the matter was held before Examiner Emerson on May 21, 1952, at Hanford. Neither the city nor any individual customer appeared at the hearing to protest the proposed rate increase or offer any comments as to conditions of service. It is of record that city and county officials were given copies of all exhibits introduced at the hearing, prior to the hearing.

Rates, Present and Proposed

The rates which the company proposes would increase the bill of the average consumer in the Hanford District of the company about 65 cents per month. The following tabulation is a general comparison of monthly charges for water delivered to

domestic consumers at present rates and at the rates which applicant requests be placed in effect.

Flat Rates

Use	Monthly Charge :		
	Present Rates	Proposed Rates	Per Cent Increase
Residence, 5 rooms or less	\$1.30	\$1.60	23.1%
With bath and toilet	1.95	2.40	23.1
With bath only	1.63	2.00	22.7
With toilet only	1.62	2.00	23.5
Each additional toilet	.32	.40	25.0
Each additional bath	.33	.40	21.2
Each additional room over 5	.20	.25	25.0
Sprinkling or garden irrigation (May through October, payable in equal monthly amounts throughout the year):			
For the first 50 sq.yds. or less	.40	.49	22.5
For the next 450 sq.yds., per sq.yd.	.0075	.009	20.0
All over 500 sq.yds., per sq.yd.	.004	.005	25.0

The above present rates, at the end of 1951, were applied to the usage of 3,294 residential customers. Metered schedules were applied to 50 residential consumers. A comparison of monthly bills for typical metered residential consumptions is as follows:

Meter Rates

Quantity Cubic Feet	Monthly Charge, Per-Meter :		
	Present Rates	Proposed Rates	Per Cent Increase
500 (minimum)	\$ 1.00	\$ 1.50	50.0%
1,000	1.90	2.45	28.9
1,500	2.80	3.40	21.4
2,000	3.70	4.35	17.6
3,000	5.50	6.25	13.6

The schedule of rates for temporary flat rate service, rendered to consumers other than domestic or residential consumers until meters can be installed, contains some 20 listings, varying from \$0.65 to \$39 per month, as filed March 3, 1949. A similar schedule is proposed by the company to increase these rates 23% uniformly, to amounts varying from \$0.80 to \$31.98 per month, with some of the previous listings eliminated.

The present rate schedule for private automatic fire sprinkler service, filed July 21, 1937, includes rates for service through 4-inch, 6-inch and 8-inch connections. The company now proposes a schedule for private fire protection service to include a rate for additional sizes of connections and to increase the existing rates, but eliminating rates for inside hose connections.

Prior to 1949 the company had filed no rate for public fire protection service through fire hydrants inasmuch as all public fire hydrants in the City of Hanford were attached to a system of piping owned by the municipality, the company rendering only standby service to the city's fire mains through metered service connections. On January 4, 1949, the company filed a schedule of monthly fire hydrant charges for public use, applicable to a fire district outside the city limits of Hanford. This area was annexed to the City of Hanford and by resolution passed July 9, 1951 the city council assumed responsibility for payment of the charges at the same rates, for those fire hydrants existing in the annexed territory on the date of annexation and such other fire hydrants as might be thereafter installed in the area by the City of Hanford. The company then refiled the schedule on July 28, 1951 as applicable to those fire hydrants now within the city limits. The schedule has been in effect since February 4, 1949 and consists of monthly charges varying from \$0.75 to \$3.50 per hydrant depending upon the size and type of hydrant, the size of main to which it is attached, and whether the hydrant is owned by the city or by the company. The company proposes no change in this schedule.

### The System, Its Growth and Cost Trends

The first public water system in Hanford was installed about 1881 and in 1906 it became the Hanford Water Company which operated the system until it was purchased by Federal Water Service Corporation in 1927. California Water Service Company acquired the properties on January 1, 1929.

As of December 31, 1951 this district secured all of its water supply from 14 company-owned wells. These wells range in size from 8 to 16 inches diameter of casing and are from 465 to 1,429 feet deep. Under normal operation, water is lifted from the wells into the transmission and distribution system by means of deep-well pumps driven by electric motors. At one of the pumping plants an emergency standby gasoline engine is maintained.

Due to the flat terrain, the entire district is operated as a single pressure zone. As of the end of the year 1951, there were 3,530 flat rate customers, 365 meter rate customers and 211 fire hydrants; served through 262,081 feet of transmission and distribution mains, varying in size from 1½ to 12 inches.

Pressures are maintained and water provided for peak periods of consumption and emergencies by means of two storage tanks having a combined capacity of 375,000 gallons. A third tank, holding an additional 100,000 gallons, is at a slightly lower elevation but can be utilized as standby storage. An additional well, pump, new mains and services are being installed during the current year to take care of the increased number of customers which, it is anticipated, will add another 175 consumers to the system.

Agricultural developments in the Hanford area have placed an exceptionally heavy demand upon the underground sources of water. Lowering of water tables has resulted. In addition to the production problem thus created the company has had to produce

more water to meet the growth of the community. It has found it necessary to drill additional wells rather than to rely upon increased pumping of existing wells. Actually the production from existing wells has had to be curtailed somewhat due to an increasing intrusion of sand which, if allowed to be pumped in quantity, ruins pumps. In the last three years the company has lost well capacity of about 2,400,300 gallons a day because of declining water levels. This situation has caused the company to increase its capital investment in Hanford since 1946 by about \$358,000 while adding only 485 customers to the system. The average capital investment per customer was \$149 in 1946. For the addition of the 485 customers since 1946 the company has invested over \$745 per customer.

In 1949 the gross additions in the Hanford area amounted to some \$127,000. In 1950 it reached an additional \$94,000 and in 1951 it exceeded \$137,000. The company's construction budget for 1952 exceeds a gross expenditure of \$95,000 and is nearly three times the entire annual net revenues in the Hanford District. The evidence shows that these increases arise not alone from expanding plant facilities to meet the needs of community growth but also from the ever-increasing costs of construction in the postwar period, increasing costs which all industries as well as individuals have experienced. As only one example of increasing costs the company has had to face six rounds of wage increases in the postwar years. Such labor costs affect construction as well as operating and maintenance costs.

#### 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.

Applicant's stock is widely distributed. Witness for applicant testified that 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, this Commission must consider, among other things, the maintenance of applicant's earnings at such a level as will afford the utility an opportunity to earn a reasonable return on the capital reasonably employed by it so as to maintain its credit and attract capital sufficient to discharge its public duty in meeting the reasonable demands for service.

#### 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 adjusted depreciation reserve requirements on a 4½% sinking fund basis. In this latter connection, applicant by letter agreement with the staff, dated March 20, 1952, adopted the 4½% 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 \$753,872 while the staff derived a corresponding base of \$753,400. The depreciated rate bases of applicant and staff, for the estimated year 1952, are \$857,104 and \$857,800, respectively.

Revenues, Expenses and Rate of Return

Applicant, in its development of revenues and expenses, as in the development of rate base, 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 results of operations for the Hanford District as adopted for the purposes of this proceeding, are as follows:

Item	: Adjusted Year 1951 :		: Estimated Year 1952 :	
	: Present :	: Proposed :	: Present :	: Proposed :
	: Rates :	: Rates :	: Rates :	: Rates :
Operating Revenues	\$140,803	\$172,801	\$149,000	\$183,500
Operating Expenses	108,981	126,244	116,000	135,000
Net Revenues	31,822	46,557	33,000	48,500
Rate Bases (Depreciated)	753,700	753,700	857,500	857,500
Rates of Return	4.22%	6.18%	3.85%	5.66%

It is apparent, from the above tabulation, that applicant is experiencing a less than reasonable return and is also faced with a declining rate of return under the proposed rates. 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 of about  $5\frac{1}{2}\%$  in any near-future period under the rates which it has proposed.

Conclusion

It is apparent from the evidence that the present rates will yield inadequate income from future service rendered in Hanford. The record also shows, and we hereby find, that the proposed schedule of increased rates, which the following order will authorize, will produce a rate of return within the lower limits of the zone of reasonableness. The requested rates will be authorized. Initial billings under the new rates will be prorated on the basis of the average daily consumption.

O R D E R

California Water Service Company having applied to this Commission for an order authorizing increases and charges for water service rendered in Hanford and vicinity, Kings 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 set forth in Table 2 of Exhibit No. 2 in this proceeding as specifically modified by Exhibit A attached hereto, in conformance with General Order No. 96, and, after not less than



five (5) days' notice to the Commission and to the public, to make said rates effective for service rendered on and after October 1, 1952.

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

Dated at San Francisco, California, this 19<sup>th</sup> day of August, 1952.

*A. J. [Signature]*  
 President.

*Matthew J. [Signature]*

*Harold [Signature]*

*[Signature]*

Commissioners.

Commissioner Kenneth Potter, being necessarily absent, did not participate in the disposition of this proceeding.

EXHIBIT A

The rate schedules set forth in Table 2 of Exhibit No. 2 in this proceeding are approved as specifically modified below:

Schedule No. 1. Domestic Flat Rate Service

Approved without change.

Schedule No. 2. General Metered Service

Approved without change.

Schedule No. 3. Temporary Flat Rate Service

Change title to "Special Flat Rate Schedule".

Authority granted to add to Rates:

For each water wasting air cooling unit .....	\$1.00
For each water conserving air cooling unit .....	.40

Balance of schedule approved without change.

Schedule No. 4. Monthly Fire Hydrant Charges for Public Use

Approved without change.

Schedule No. 5. Private Fire Protection Service

Number the special conditions and omit last paragraph.  
Balance of schedule approved without change.

Schedule No. 6. Monthly Fire Hydrant Charges for Public Use

Approved without change.

Schedule No. 7. City Fire Service Connections

Approved without change.